

June 20, 2025

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: June 26th Roundtable on Executive Compensation Disclosure Requirements

Dear Ms. Countryman:

The Center On Executive Compensation (Center) provides these comments in advance of the Securities and Exchange Commission (SEC) roundtable regarding executive compensation disclosure requirements. The Center commends the SEC for holding this forum on an important topic and for soliciting recommendations from the public for how to improve the effectiveness of executive compensation disclosure.

The Center, as part of HR Policy Association, is a research and advocacy organization that seeks to provide a principles-based approach to executive compensation policy from the perspective of Chief Human Resource Officers at over 350 large companies, representing a broad cross-section of industries. These comments reflect the input of the top human resources and executive compensation professionals at our member companies, who have extensive experience in crafting compensation disclosures and in engaging with institutional investors on executive compensation matters.

The Center looks forward to participating in the roundtable on June 26th. In advance of the discussion, we wish to provide these initial comments that provide background on executive compensation processes at public companies along with suggested areas of focus for the SEC. The Center plans to provide further comments after the roundtable that reflect the panel discussions from that day as well as more detailed feedback and recommendations on behalf of our membership.

Additionally, the Center has submitted several previous comment letters to the SEC regarding executive compensation disclosure, including certain rulemakings mandated by the 2010 Dodd-Frank Act. Since many of these comments are still relevant as the SEC considers changes to current rules, we have included them as attachments to this letter.

The Center has organized our views here based upon the topics and questions posed by Chairman Atkins in his May 16th statement.¹

¹ Statement on the Upcoming Executive Compensation Roundtable. Chairman Paul Atkins (May 16th, 2025)
<https://www.sec.gov/newsroom/speeches-statements/statement-upcoming-executive-compensation-roundtable>

Topic: Executive compensation decisions: setting compensation and making investment and voting decisions

Question 1: What is the process by which companies develop their executive compensation packages? What drives the development and decisions of compensation packages? What roles do the company's management, the company's compensation committee (or board of directors), and external advisors play in this development?

Public companies engage in a rigorous, multi-layered process to develop executive compensation packages. It begins with a focus on the company's strategy and the identification of performance metrics that support achieving the strategic objectives of the business. The process involves recommendations from management, advice from independent consultants, and input from institutional investors. The entire effort is overseen by the board's compensation committee, which holds ultimate authority regarding decisions over executive compensation.

Management Input. The chief executive officer (CEO) of the company will typically provide information regarding the alignment of compensation with his or her assessment of the performance of the senior executive team. The chief human resources officer (CHRO) will provide input regarding the talent pipeline, while the chief financial officer (CFO) provides a perspective on the alignment of performance metrics with the expectations of investors and the expense implications of the compensation agreements.

External Advisors. External advisors – often an independent executive compensation consultant – advise the compensation committee on competitive practices and trends in the design of compensation plans and may be asked to make recommendations regarding the pay of the CEO or other senior executives.

Investor Input. In addition to input from internal and external sources, the process for determining executive compensation is also influenced by institutional investors. Companies maintain a robust, ongoing engagement process with their largest shareholders and gain insight as to how the investment community views the design of compensation and relationship of pay and performance. Additionally, annual say-on-pay votes, proposals submitted by shareholders, and certain regulatory mandates also provide key consideration for the compensation committee.

Public companies focus on aligning the forms of compensation (primarily equity-based incentives) and the performance metrics (such as earnings and total return to shareholders versus peer group companies) to ensure that executive compensation is consistent with the interests of shareholders. To further this goal, executives are typically required to retain a significant portion of their shares earned. Most commonly, CEOs are required to own 6 times their salary so that the CEO has an ongoing and significant stake in the company.

Compensation committees seek to design compensation plans that ensure alignment of incentives for executives with the interests of shareholders, encourage high performance of the company, and provide competitive levels and forms of pay that enhance the ability of the company to attract and retain the talent needed to serve the interests of shareholders.

Question 2: Current disclosure requirements seek to unpack these processes for investors. How can our rules be revised to better inform investors about the material aspects of how executive compensation decisions are made?

Question 3: What level of detail regarding executive compensation information is material to investors in making their investment and voting decisions? Is there any information currently required to be disclosed in response to Item 402 of Regulation S-K that is not material to investors or that could be streamlined to improve the disclosure for investors? How do companies' engagement with investors drive compensation decisions and compensation disclosure?

In 2006, the SEC overhauled executive compensation disclosure requirements under Item 402 of Regulation S-K, including a requirement for compensation discussion & analysis (CD&A) to be included with a company's proxy materials.²

The CD&A effectively requires that companies put in narrative form the “what, why, and how” of executive pay. It takes a principles-based approach so that companies facing different competitive environments or establishing different strategic objectives can tell their compensation story in a way that best informs investors regarding the linkage between compensation design, business strategy, talent needs, and alignment with shareholders.

In addition to the CD&A component of the proxy, there are a variety of required tabular disclosures showing current incentive awards, outstanding equity awards, equity that is vested or exercised, deferred compensation, potential severance benefits, and other forms of pay that are intended to inform investors as to the total compensation awarded to the named executive officers (NEOs).

In the years since the 2006 rules were adopted, companies have continuously evolved their pay disclosures based upon feedback from investors and other stakeholders. For example, companies have increased their use of graphics and tables to describe the pay versus performance relationship and have provided hyperlinks, summaries, or other tools to help investors better understand their pay disclosure. Investors seem to have responded favorably to this evolution, as evidenced by the average investor support for annual stay on pay votes being roughly 90%.

Still, there is no denying that the length and complexity of these disclosures – including in CD&A – have grown substantially over the last two decades. It can be difficult at times for investors to wade through all the disclosures provided and determine the most decision-useful information.

The effectiveness of executive compensation disclosure has also been weakened by certain rules the SEC was required to adopt under the Dodd-Frank Act. In contrast to CD&A and

² 71 FR 78338

principles-based disclosure requirements generally, the Dodd-Frank Act rulemakings are highly prescriptive and take a one-size-fits-all approach towards executive compensation.

Topic: *Executive compensation disclosure: past, present, and future*

Question 4: The Commission substantially revised its executive compensation disclosure requirements in 2006 with requirements to provide, among other things, enhanced tabular disclosure of compensation amounts and a compensation discussion and analysis of the company's compensation practices. The rules were intended to provide investors with a clearer and more complete picture of the compensation earned by a company's executive officers. Have these disclosure requirements met these objectives? Do the required disclosures help investors to make informed investment and voting decisions? Given the complexity and length of these disclosures, are investors able to easily parse through the disclosure to identify the material information they need? In what ways could disclosure rules be revised to return to a simpler presentation and focus?

The 2006 amendments were adopted with the worthy goal of improving transparency around executive pay. However, over time the disclosures stemming from the 2006 amendments have become overly detailed and legalistic and tend to obscure the key drivers of pay decisions for investors.

The CD&A in particular has become lengthy and duplicative due to companies' perceived liability concerns and responsiveness to evolving SEC staff views. While the Center continues to strongly support a principles-based approach towards executive compensation, the SEC should continue its engagement with companies and investors on the CD&A specifically to encourage simplification and to make certain that investors receive the most salient information and are not overloaded by an avalanche of immaterial information.

Investors and companies alike would benefit from a more streamlined disclosure model that highlights material compensation decisions, rationale, and outcomes in a concise and accessible format. The SEC should allow companies to tailor their disclosures in a way that highlights material information instead of relying upon formulaic requirements that may not be appropriate for every company.

Question 5: The Dodd-Frank Act added several executive compensation related requirements to the securities laws, including shareholder advisory voting on various aspects of executive compensation. What types of disclosure do investors find material in making these voting decisions? Are companies able to provide such disclosure in a cost-effective manner? Do the current rules strike the right balance between eliciting material information and the costs to provide such information?

Generally speaking, advisory say-on-pay votes as mandated by the Dodd-Frank Act have increased investor engagement on executive pay. Although the votes are nonbinding, it is

difficult for companies to ignore investor concerns if a say-on-pay resolution does not receive a certain threshold of support.

Investors typically focus on high-level alignment of pay-for-performance, use of discretion, and responsiveness of companies to prior votes. However, the volume and complexity of required disclosures can obscure what is material to a particular company when it comes to executive compensation. This problem could be addressed through clearer narrative disclosure in CD&A rather than reliance on dense tabular disclosure. It is more cost-efficient and useful to investors when companies explain executive compensation through narrative disclosure.

Question 6: With the experience of almost 20 years of implementing the 2006 rule amendments, how can the Commission address challenges that either companies or investors have encountered with executive compensation rules and the resulting disclosures in a cost-effective and efficient manner while continuing to provide material compensation information for investors? For example, are there requirements that are difficult or costly to comply with and that do not elicit material information for investors? Are there ways that we can reduce the cost or otherwise streamline the compensation information required by the rules?

After two decades of experience with the 2006 amendments, it is clear that many of those legacy requirements – including exhaustive footnotes and redundant tabular data – make disclosure lengthier but not more understandable for investors. The SEC could mitigate costs to issuers *and* make more disclosure more effective for investors by simplifying some of these longstanding requirements.

For example, the SEC could permit layered disclosure (e.g. hyperlinks or appendices) that provide essential information upfront but still maintain access to more in-depth information for any investor who seeks a greater level of detail. The SEC could also re-think materiality thresholds for certain items and eliminate instances of duplicative requirements. This would reduce the cost of reporting and enhance the readability of disclosure.

Topic: Executive compensation hot topics: exploring the challenging issues

Question 7: The Commission recently adopted rules implementing the requirements of Dodd Frank related to pay-versus-performance and clawbacks. Now that companies have implemented the new rules, are there any lessons we can learn from their implementation? Can these rules be improved? If so, how? For example, which requirements of these rules are the most difficult to comply with and how could we reduce those burdens while continuing to provide investors with material information and satisfy these statutory mandates?

The Center previously submitted comments and raised concerns with several provisions of both the pay versus performance and clawback rule proposals. Unfortunately, the final rules later adopted by the SEC contained many of the same flaws as the proposals. Although the Congressional mandate for the SEC to implement and oversee these rules remains in place, the SEC still retains discretion to modify the regulations.

Regarding pay versus performance, as a general observation the prescriptive nature of the rule has led to inconsistent implementation across companies which has reduced the comparability and usefulness of the disclosure for investors. The Center continues to believe that a more principles-based approach toward pay versus performance – one that takes into account ways that companies have for years disclosed the relationship between pay and performance – would lead to less confusion and ultimately better information for investors.

Regarding clawbacks, the SEC’s 2022 rule goes well beyond Congressional statute and intent by including as part of the mandate cases that involve immaterial errors or nuanced accounting judgements, and fails to give the board discretion to pursue a clawback or not based on what is best for shareholders. So long as the Congressional mandate under Section 954 remains law, the SEC should revisit its 2022 rulemaking to carry out the type of rule that was intended by Congress.

Question 8: Since adoption of the pay-versus performance rules, I have continued to hear concerns regarding the rule’s definition of “compensation actually paid” (CAP). What has been companies’ experience in calculating CAP and what has been investors’ experience in using the information to make investment and voting decisions?

Compensation actually paid (“CAP”) is a confusing and misleading statistic given that the majority of the compensation included in the definition of CAP is compensation that is yet to be earned or yet to be realized. The pay-for-performance rule provides a comparison of historic stock price changes and financial measures with the portion of pay that has been earned, combined with a mathematical estimate of unvested compensation that may be earned in the future. The mandated pay-for-performance disclosure is like determining the winner of a baseball game based on the score in the seventh inning since the outcome of the pay-for-performance linkage cannot be known until the end of the performance period and unvested incentives are earned.

Calculating CAP requires complex, non-standard valuations of equity awards and pension changes that can create year-to-year volatility that is unrelated to performance. In our experience and based upon feedback from our membership, investors have shown limited appetite for CAP-based figures. Instead, investors tend to rely on simpler metrics (e.g. total direct compensation and realizable pay) that better reflect economic value. The SEC should ultimately eliminate the CAP calculation requirement and instead make the pay versus performance disclosure principles-based so that companies are able to comply using existing disclosures that are already relied upon by investors.

Question 9: What has been companies’ experience in applying the two-part analysis articulated by the Commission in 2006 with respect to evaluating whether perquisites for executive officers must be disclosed? How do disclosure requirements resulting from the test, and whether a cost constitutes a perquisite, affect companies’ decisions on whether or not to provide a perquisite? For example, how has the application of the analysis affected evaluations relating to the costs of security for executive officers? Are there types of perquisites that have been particularly difficult

to analyze? How do investors use information regarding perquisites in making investment and voting decisions?

The 2006 amendments apply a two-part analysis for companies to follow to determine whether a particular benefit should be disclosed as a perquisite, or “perk”:

- First, an item is not a perquisite or personal benefit if it is integrally and directly related to the performance of the executive’s duties;
- Second, an item is a perquisite or personal benefit if it confers a direct or indirect benefit that has a personal aspect, without regard to whether it may be provided for some business reason or for the convenience of the company, unless it is generally available on a non-discriminatory basis to all employees.

In practice, this two-part analysis has proven to be overly subjective and inconsistent in application, resulting in disclosure uncertainty and legal risk. Companies often face disproportionate compliance burdens evaluating minor benefits (e.g. security costs, travel logistics) that should be viewed as operational necessities, not as perks.

Inherent within the two-part analysis is an ambiguous definition of “personal benefit” that leads companies to err on the side of more disclosure even if the items included may not meet the test of materiality for investors. A clearer materiality threshold or safe harbor for certain categories of benefits (e.g. security for executives or commuting) would allow companies to focus disclosure on genuinely investor-relevant benefits.

The SEC should also consider eliminating personal security for executives from perk disclosure altogether. In light of the physical and other threats faced by corporate executives today, it is difficult to argue that executive security is not “integrally and directly related to the performance of the executive’s duties.” At a minimum, companies should not be required to disclose security for executives in the summary compensation table.

Conclusion

The Center appreciates this chance to participate and provide comments on such an important initiative from the SEC. We look forward to continuing to engage with SEC commissioners and staff and serving as a resource on issues related to executive compensation disclosure.

Sincerely,



Ani Huang
CEO, Center On Executive Compensation

Cc: The Honorable Paul Atkins, Chairman
Cc: The Honorable Hester Peirce, Commissioner
Cc: The Honorable Caroline Crenshaw, Commissioner
Cc: The Honorable Mark Uyeda, Commissioner

Attachments

1. [July 22nd, 2016 Center On Executive Compensation letter in response to proposed incentive compensation rule](#)
2. [March 23, 2017 Center On Executive Compensation letter in response to Acting Chair Piwowar's request for comments on reconsideration of the pay ratio rule](#)
3. [November 17th, 2021 Center On Executive Compensation letter in response to reopening of comment period for proposed clawbacks rule](#)
4. [March 4th, 2022 Center On Executive Compensation letter in response to reopening of comment period for proposed pay versus performance rule](#)