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April 13, 2026
The Honorable Paul Atkins
Chairman
U.S. Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number 4-855 Executive Compensation Disclosure Requirements

Dear Chairman Atkins:

In June 2025, Fariant Advisors LLC (“Fariant”) provided comments in response to questions outlined in advance of the SEC’s June 2025 Roundtable on Executive Compensation Disclosure Requirements. As a follow-up to that letter, the roundtable, and the debate that have since surfaced in the broader corporate governance community, our comments in today’s letter focus on the SEC-mandated Pay vs. Performance (“PvP”) disclosure.

We acknowledge that the PvP disclosure is complex, was costly to implement, and perhaps not worth the initial investment to investors. However, the Compensation Actually Paid (CAP) figures in the PvP disclosure are uniquely relevant to assessing alignment between management and shareholders and now require only a relatively incremental cost to continue calculating and disclosing. This letter explains the critical importance of certain PvP data and how disclosure can be simplified around that core data, so that legitimate concerns about PvP complexity can be addressed without discarding useful data in which issuers have already invested heavily. By highlighting what is worth preserving, we will illustrate how CAP can enable investors to identify previously hidden sources of pay-performance misalignment.

Fariant is an independent executive compensation, performance, and governance consulting firm. We provide advice primarily to compensation committees of publicly traded companies. Each senior team member has decades of experience in executive compensation consulting, preparing and utilizing related disclosures, and using disclosed data for research into compensation, alignment, and governance. Fariant is a recognized expert in pay-for-performance alignment. In 2010, our CEO, Robin A. Ferracone, one of the signatories of this letter, published a book on this topic titled *Fair Pay, Fair Play: Aligning Executive Performance and Pay*. One of our partners, Marc Hodak, another signatory of this letter, has taught finance and corporate governance at New York University’s Stern School of Business and Southern Methodist University’s Cox School of Management. He has also published numerous articles on executive compensation and corporate governance in respected business and academic journals.

Fariant is also a founding partner of the Global Governance and Executive Compensation (GECN) Group, which serves clients in more than 35 countries and provides us with insights into disclosure practices worldwide.



The Case For CAP

For decades, evaluation of pay-for-performance (P4P) has suffered from a fundamental flaw: the measure of “pay” typically used in assessments is largely insensitive to performance. The Pay vs. Performance (PvP) disclosure of Compensation Actually Paid (CAP) represents a meaningful advance toward correcting that flaw. CAP, a measure of realized and realizable pay, is uniquely sensitive to stock price performance in a way that SCT Total Compensation is not.

The Inherent Limitations of SCT Total Compensation

Historically, total compensation (TC) for executives primarily consisted of salary and bonuses. TC went up and down like a ship on the waves, largely due to fluctuations in bonuses tied to company performance. Over time, long-term incentives (LTI) became an increasingly important component of total pay. Much like salary, LTI was awarded at levels not expected to vary significantly from year to year. Bonuses might cause a CEO’s TC to rise or fall by a few hundred thousand dollars, but these effects were soon overwhelmed by slight changes in LTI awards worth many millions.

By the time the SEC began requiring disclosure of total pay in the Summary Compensation Table (SCT) in 2006, the impact of bonuses on TC was less like waves bobbing a sailboat and more like water lapping around a cruise ship. Grant date value of LTI served as ballast, keeping TC relatively steady from year to year. This shift seemed to go unnoticed as “pay for performance” became a preoccupation among governance watchdogs, including proxy advisors, who continued to use SCT Total Compensation as the unit of “pay” for comparing against performance. SCT Total Compensation has the virtue of being uniformly disclosed across all public companies. However, its limited sensitivity to performance makes it unsuitable for measuring pay-performance alignment.

The Introduction of Compensation Actually Paid (CAP)

In 2010, Robin Ferracone introduced a measure of pay called “Performance-Adjusted Compensation” or “PAC.” PAC measures the realizable value of pay *after* performance occurs, making it a better way to assess pay-for-performance alignment compared to SCT pay. However, there were no required disclosures regarding PAC, so investors did not have access to consistently derived PAC data. In 2023, the SEC required the inclusion of CAP in proxy statements. This created the first consistently disclosed pay measure materially affected by company performance. CAP reflects how CEOs monitor year-to-year changes in their company-derived wealth in a manner parallel to how investors track their portfolios.

Despite its importance, governance professionals have not embraced CAP for evaluating pay-for-performance. Most investors view the PvP disclosure as a bird’s nest of figures, with puzzling results such as “negative pay” and little guidance on interpretation. Glass Lewis recently began including CAP in its assessments, but proxy advisors’ use of CAP has added confusion rather than clarity. Compensation consultants have been awaiting direction from investors and proxy advisors and have offered only broad comments on CAP’s alignment with total shareholder return.



This general disregard for PvP, amid concerns that its costs exceed its benefits, has raised questions about the entire disclosure, including the only valid, consistently reported number for comparing pay to performance, even though companies have invested significant sums to establish this reporting and now bear relatively incremental costs to maintain it.

The Importance of Distinguishing Pay and Its Uses

Appreciating the alignment analysis enabled by CAP requires an updated view of alignment. Historically, governance critics have promoted a near-exclusive focus on pay levels, conflating assessments of *alignment* with assessments of *pay reasonableness*. Proxy advisor and investor concerns about “pay for performance” have really been criticisms about pay quantum, with high pay more acceptable when accompanied by strong performance. But proper alignment of management and shareholder interests is intrinsically valuable as well. Significant, definitive pay-for-performance variability benefits shareholders by aligning behavior toward better performance, as empirically demonstrated by research using CAP, including within the Comment Letter submitted by Stephen O’Byrne of Shareholder Value Advisors. Unreasonable pay quantum can cost shareholders millions of dollars. Weak alignment can cost shareholders billions through short-term or myopic decisions driven by perverse incentives.

By distinguishing these concerns—pay reasonableness and alignment—we can better monitor both aspects of pay using SCT and CAP.

Two Measures of Pay and Their Uses

Basis for Measure	Definition	Question Being Answered	Useful For
Summary Compensation Table (SCT) Total Compensation	Salary + Cash bonus earned + Grant value of equity awards during the fiscal year	<i>“What economic costs did the company incur in cash and equity over the years?”</i>	Determining executive’s economic cost to the company
Compensation Actually Paid (CAP)	Salary + Cash bonus earned + Realized value of grants vested during the year + Change in realizable value of equity unvested at end of the year vs. unvested equity at beginning of the year	<i>“How much did the top executives earn, including the changes in their company-derived net worth year by year?”</i>	Determining the alignment of executive and investor outcomes over time

Using these distinct measures of pay, Fariant developed separate, simple assessments for:

- Pay **Reasonableness**, based on SCT pay (an approximation of target pay over time⁽¹⁾)
- Pay for Performance **Alignment**, based on CAP (realized and realizable pay over time)

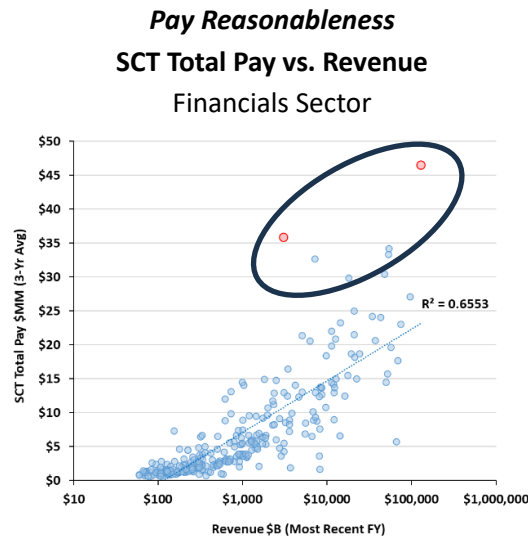
(1) Fariant acknowledges that SCT pay alone does not gauge the reasonableness of target pay. To gauge the reasonableness of target pay, SCT pay must be compared to pay at companies in the same size range and industry



Although realized and realizable pay can be unreasonably large, distinguishing reasonableness from alignment enables a more accurate assessment of each. Assessments that attempt to measure both factors simultaneously invariably conflate their effects, undermining clarity.

Pay Reasonableness: Where SCT Pay Remains Relevant

Investors have several effective measures of pay reasonableness at their disposal. One of the most straightforward is the Institutional Shareholder Services (ISS) Multiple of Median assessment, which compares a company's SCT Total Compensation to its peers'. However, this single-spectrum comparison lacks the context of relative scale, which matters because pay is generally related to company size. ISS accounts for scale by including peers of similar size to the company being assessed. This places a premium on peer group selection, a perennial source of controversy. A cleaner, more rigorous way to account for scale is to plot total pay against revenue on two axes. This diffuses the controversy over which companies are "in" vs. "out" of a peer group. For example, in the chart below showing the entire Financials sector, companies with high total pay relative to their scale (red dots) are highly visible as potentially unreasonable, whereas those with simply high absolute pay, generally associated with higher revenue, are in the upper part of the graph.

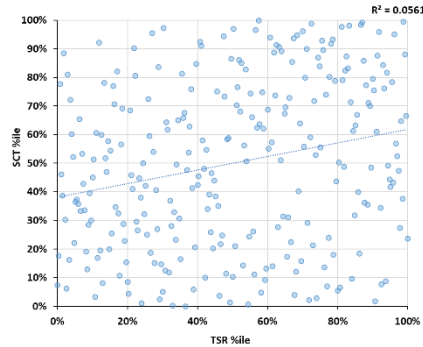


Beyond SCT Total Pay: CAP and Alignment

The limits of SCT Total Pay as a basis for measuring alignment of pay and performance are observable in this chart:



SCT Pay %ile vs. TSR %ile Financials Sector



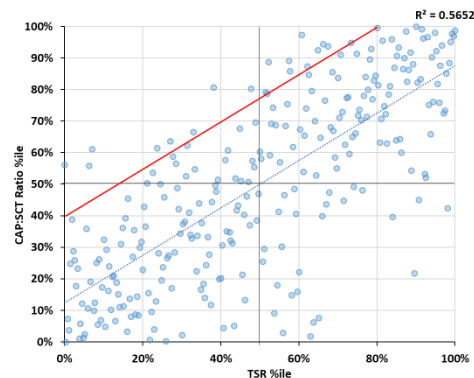
If we focus on companies in the upper-left portion of the chart (high pay/low TSR), a company may appear “misaligned” due to high target pay in a year of poor TSR, or may appear well-aligned in a strong TSR year with *exactly the same compensation program*. This provides little more substantive information about company compensation than the ISS Multiple of Median analysis; the performance dimension simply muddies the analysis and offers less information than the Reasonableness analysis above.

In contrast, CAP incorporates and therefore reflects the relationship between realized/realizable pay for management and shareholder outcomes.

By itself, CAP includes companies of different scales, with larger and better-performing firms tending to pay more. There are several methods we can use to normalize CAP for scale, such as restricting the data to peer companies of comparable size or, as was done with our Reasonableness pay measures, adjusting pay according to a regression analysis of pay versus company size. In the chart below, we have normalized for scale by using the CAP:SCT ratio as the measure of “pay.” The CAP:SCT ratio is the realized and realizable pay after a performance period, divided by the grant-date or target pay (as shown in the SCT over multiple years).

Alignment

CAP:SCT Ratio %ile vs. TSR %ile Financials Sector





This ratio goes a long way toward isolating the impact of performance on pay variability among companies, without the clouding effect of relative scale, revealing a strong correlation between pay and performance. Understanding the upper left outliers in this analysis, i.e., companies with high CAP:SCT ratios but low TSR, is where the interesting questions begin.

The Round-Trip Effect and Other Drivers of Misalignment

For those seeing the CAP:SCT vs. TSR analysis for the first time, the outliers conjure up a rogue's gallery of possible explanations for misalignment: overly generous LTI grants, poor incentive plan design (e.g., metrics that do not correlate with value creation), or less-than-rigorous target setting. Farient's analysis shows that none of these reasons make the Top 5.

The number one reason, by far, is what we call the "round-trip effect." This effect arises from the interplay between fixed-value equity grants and volatile stock prices. For example, if the stock price drops and then rebounds, executives may pick up more shares during the low period and end up with more shares—and more realizable pay—when the stock price recovers than if the price had remained stable. In other words, a fixed-value grant policy in which the stock drops and then recovers effectively rewards management for interim periods of poor performance. This effect is invisible when focusing solely on grant-date values, which is all the proxy provides until you get to the PvP section.

The next-biggest cause of misalignment is something more familiar to investors: what we call "large trough grants," in which major stock awards are granted after significant stock price declines, before a rebound. While similar to the round-trip effect, large trough grants are generally one-offs driven by specific circumstances rather than the product of fixed-value grants over time as a matter of policy. Large trough grants were widely awarded during the early 2020 market downturn due to COVID, when companies granted significant equity to "restore" pay to competitive levels after recent equity grants had suddenly lost about 20% of their value, including recently granted stock options that were now way underwater. At the time, no one knew if this represented a long-term market dislocation, nor did anyone foresee the gross unevenness of the recovery. Even so, many investors viewed those grants with suspicion at the time. Investors are familiar with large equity awards in the aftermath of steep stock price declines in other contexts, such as when specific sectors or companies are hit with regulatory actions that management could not reasonably anticipate or mitigate, and such awards plausibly reflect a permanent reset in investor expectations. Investors are open to accepting these awards for retention purposes, but the PvP disclosure will more readily flag abuse of such grants.

The Inherent Trade-Off Between Competitiveness and Alignment

Understanding the principal causes of misalignment enables them to be addressed with more intentional and intelligent trade-offs, such as:

- **Up-front or episodic grants.** These mitigate path-dependent distortions from the round-trip effect. Apple notably employed large, up-front grants with extended vesting periods for both Steve Jobs and Tim Cook. These grants ensured that the company leaders were in the same boat



as the investors over their entire tenure. If a large grant is offered well into an executive's tenure, we risk the timing of that grant falling at a trough in the stock price or at a peak, either of which could cause problems requiring difficult decisions by the Board. So, if companies decide to adopt up-front grants, investors can be assured of alignment if those grants coincide with tenure.

- **Performance-based grants (as opposed to performance-vested awards).** These are awards in which the grant-date value is determined by performance in the prior year(s). These can reduce or even eliminate the round-trip effect, depending on the grant pattern established by the Board, and minimize the odds of large-trough grants. But this change in grant practice would represent a major shift from annual competitive pay, providing a consistent target value. If the company's stock is too volatile, it could threaten retention, challenge the Board's resolve to stick with the grant formula, or lead to consistently above-market grants that appear unreasonable. In other words, there are many scenarios where this practice could leave the company in a no-win situation. So, companies adopting this tactic to enhance alignment should have average or below-average volatility, or be prepared to occasionally adapt their grant policy to circumstances.
- **Limits on the number of shares granted in any cycle.** This can act as a constraint on overall awards when the stock price has dropped significantly. Depending on how this constraint is implemented, it can either provide a good balance between competitiveness and alignment or lead to the worst of both worlds—round-trip effects in normal times and significant retention risks in difficult times. Each company would need to model the effects of this policy and manage its grant practices over multiple years rather than focusing on year-by-year share usage.

Companies with high stock price volatility are more likely to face these issues and the difficult trade-offs required to address them. They will need to tailor solutions to their history, growth stage, and other specific circumstances.

In case it is not evident, any remedies to the round-trip effect and large-trough grants inevitably challenge the centrality of “competitive pay” as a foundational element of compensation philosophies. Maintaining a reasonably level target annual compensation in line with the market, including LTI awards, is the most common way to manage retention risks, especially for critical talent. But if we are serious about alignment and its intrinsic benefits beyond quantum, we need to accept that fixed-value grants are not the universally best way for companies to operate. Better balancing retention and alignment will require a more sophisticated approach that accounts for realizable pay and performance over multiple years without inadvertently rewarding volatility. CAP is the only disclosed measure that enables investors to identify the problems outlined above and evaluate how well companies address them.

The Case for Retaining CAP

Despite these handicaps, CAP offers an entirely new lens for identifying misalignment. The fact that much of CAP consists of unvested, unrealized gains subject to forfeiture—and so is not “actually paid” in



the conventional sense—does not diminish its value as an alignment measure; it is precisely that sensitivity to changes in equity value that makes CAP informative where SCT is not.

Investor dissatisfaction with existing pay-for-performance analyses using the grant date value of equity is growing. Still, the governance community has struggled to make productive use of the PvP disclosure in its current form. The SEC has an opportunity to resolve both problems at once: by retaining the analytically essential elements of PvP in a streamlined, lower-cost form, the Commission can preserve a disclosure that gives investors their only consistently-reported, performance-sensitive measure of executive pay—one with the potential to materially improve how compensation governance is assessed—while directly addressing the complexity and burden that have driven calls for its repeal.

Our Recommendation: A Streamlined PvP Disclosure

We suggest that the SEC retain a streamlined PvP disclosure requiring the following for the CEO(s) only and not for other named executive officers:

- **SCT Total Compensation**, as currently reported, with one modification: the pension cost figure currently used in CAP (i.e., the actuarially determined service cost and, if applicable, prior service cost) should replace the change in pension value currently reported in the SCT. This ensures that SCT Total Compensation reflects the true economic cost to the company, consistent with other pay elements in the SCT.
- **Compensation Actually Paid (CAP)**, with a corresponding modification: the change in pension value currently included in the SCT (and subtracted in the CAP calculation) should instead be reflected in CAP. This ensures that CAP captures the full year-over-year change in an executive's company-derived wealth, including changes in pension value, making CAP a purely value-change-oriented measure rather than a hybrid of cost and value-change concepts.
- **Total Shareholder Return (TSR) results**, as currently required, to provide the essential shareholder return context against which CAP can be meaningfully assessed.

The rationale for the pension treatment switch is conceptually straightforward. Under current rules, SCT Total Compensation includes the change in pension value—a figure that is heavily influenced by interest rate fluctuations and actuarial assumptions rather than the company's deliberate compensation decisions. The pension cost figure used in CAP (service cost and prior service cost) better reflects the actual cost incurred by the company in a given year, making it the more appropriate component of a cost-based measure like the SCT. Conversely, CAP is designed to reflect changes in executive wealth; including the change in pension value—which is indeed a year-over-year change in executive wealth—makes CAP a purer and more internally consistent measure of value changes from the executive's perspective.

Limiting disclosure to the CEO(s) rather than to all named executive officers (NEOs) further reduces the issuer's burden while preserving the data most critical to investors. The CEO is the primary steward of company strategy and the executive whose pay-for-performance alignment most directly reflects board



governance. The incremental information value of requiring identical calculations for all other NEOs does not justify the additional compliance cost, particularly given that the CAP:SCT alignment analysis described in this letter is most powerful when applied to the CEO over time. The remaining elements of the current PvP disclosure—including the tabular list of financial performance measures and the relationship disclosure narrative—can be eliminated, substantially reducing the complexity and cost that have driven criticism of the disclosure without sacrificing its analytical core.

Finally, we recommend renaming the current CAP measure, which, in fact, includes considerable compensation not yet paid, to something like "Realized and Realizable Pay" (RRP). Compensation actually paid was the intent of the SEC's proposed rule in 2015, when realizable pay was not contemplated as part of the proposed definition of "pay." Once realizable pay was properly introduced in the final rule, the name was not changed to reflect that. This can be remedied now.

* * * * *

In closing, we urge the Commission not to discard a disclosure that, in simplified form, would cost issuers relatively little to maintain and would provide investors with the only consistently reported, performance-sensitive measure of executive pay available across public companies. We appreciate the opportunity to submit these comments and welcome the chance to discuss them further with Commission staff.

Sincerely,

Robin A. Ferracone, Chief Executive Officer, **Farient Advisors LLC**

Marc Hodak, Partner, **Farient Advisors LLC**

Brian Bueno, Director/Sustainability Practice Leader, **Farient Advisors LLC**