AON

July 6, 2015

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Dear Mr. Fields,

Subject: Comments on Proposed Rules Relating to Pay Versus Performance
Release No. 34-74835; File No. S7-07-15 (the "Release")

We respectfully submit this letter in response to the solicitation by the U.S. Securities and Exchange Commission (the "Commission") for comments on the proposed amendments to Item 402 of Regulation S-K relating to Pay Versus Performance disclosures (the "Proposed Rules"). The Proposed Rules are intended to implement Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank").

Aon Hewitt is the world's preeminent human resources consulting and outsourcing firm with the resources, expertise, and global reach to solve the most pressing and complex people challenges that organizations face today. In our view, providing a full range of services to our clients allows us to be both fully informed and objective about the needs and interests of our clients.

We appreciate the opportunity to offer these comments and hope that the Commission finds our observations and recommendations useful in developing final rules. Our comments provided below are limited to those sections of the Proposed Rules that we believe are likely to have the greatest impact on an issuer's compliance burden as well as on a shareholder's understanding of the relationship of compensation actually paid and the financial performance of the issuer. Please note these comments are submitted to the Commission by Aon Hewitt solely in its capacity as a compensation consulting firm and do not represent any positions taken by its affiliated reporting company, Aon plc.

Sincerely,

Hewitt Associates LLC, an Aon Hewitt company

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Comments/Recommendations

1. **The definition of "compensation actually paid" should only reflect salary, bonus, equity awards, and non-equity incentive plan compensation.**

In our view, the proposed definition of "compensation actually paid" to be reported in a new Pay Versus Performance ("PVP") table does not facilitate a shareholder's improved understanding of the relationship between compensation actually paid and the financial performance of the issuer. As proposed, compensation actually paid would effectively include all of the types of compensation that are currently reportable in the Summary Compensation Table ("SCT"), although certain types of compensation (specifically, pension and equity award compensation) would be adjusted.

Some of the items reportable in the SCT that would transfer over to the proposed PVP table, such as foreign tax gross-ups and dividends paid on earned but tax-deferred equity awards (where the dividends were not taken into account in the original grant date fair value), have little or no usefulness in determining the relationship between compensation and the financial performance of the issuer. Foreign tax gross-ups are simply a business cost associated with an executive officer's foreign assignment. Dividends on deferred equity awards are merely a substitute for a payment to a shareholder that would otherwise have been made had the stock award not been tax deferred. We recognize that items such as retirement benefits, perquisites, and other tax gross-ups are compensatory in nature. However, in the context of discussing the relationship of compensation actually paid and the financial performance of the issuer, these items have little or no relevance as they are typically unrelated to performance and furthermore have been significantly scaled back across the board over the past few years. In situations where these items are still material in size, the existing SCT disclosure requirements already bring an appropriate amount of attention.

In addition, the proposed inclusion of pension "service cost" requires new calculations (for each Named Executive Officer ["NEO"]) that have no relationship to company performance and will likely raise more questions than provide useful information. Though pension accruals can for some purposes be considered part of "total rewards," the accruals are not related to any particular financial performance measurement period. Also, in most instances, a third party will need to be engaged to provide the calculated service cost on an individual executive officer basis, and the related cost to issuers is unwarranted.

We believe shareholders will be better able to understand the relationship between compensation actually paid and the financial performance of the issuer (and will also be better able to compare compensation actually paid across multiple issuers), if the compensation elements used for this purpose are limited to salary, bonus, equity awards, and non-equity incentive plan compensation. Any class of compensation that would otherwise be reportable in the "Change in pension value and nonqualified deferred compensation earnings" column or the "All other compensation" column of the SCT would be disregarded.

2. The proposed PVP table should be changed and the total shareholder return ("TSR") disclosure should be separated from the compensation actually paid disclosure.

To enable shareholders to better understand the components of compensation that comprise total compensation actually paid and how those components differ from amounts reported in the SCT, we recommend replacing the proposed PVP table with a different table: "Comparison of Compensation Actually Paid to Summary Compensation Table Amounts." (See Exhibit A.) This table would have a structure similar to the current SCT, but for each year represented in the table there would be two rows of data. The first row labeled "Compensation Actually Paid" would display, in separate columns, the dollar amounts for each of the compensation components we described above:

- Salary (same as reported in the SCT);
- Bonus (same as reported in the SCT);
- Stock awards (based on the fair value determined as of the vesting date when performance and subsequent service conditions, as applicable, have been met);
- Option awards (based on the fair value determined as of the vesting date);
- Non-equity incentive plan awards (based on the amount payable when performance and any subsequent service conditions have been met); and
- The total of the preceding items.

Immediately below the Compensation Actually Paid Row, would be a second row labeled "As Reported in Summary Compensation Table." It would include the amount of each pay component as reported for that year in the SCT.

We believe that providing a detailed table displaying the elements of compensation actually paid in direct comparison to the amounts reported in the SCT is more helpful to the shareholder than only providing the total compensation amounts with explanatory (and likely confusing) footnotes that attempt to reconcile total compensation reported in the SCT to total compensation actually paid. As discussed below, the table would include this information for the current reporting period and the previous two reporting periods (rather than the previous four reporting periods as proposed).

We further recommend that disclosure of TSR be separate from the above-mentioned table. A single table reflecting both "compensation actually paid" and TSR (as originally proposed) would incorrectly steer the shareholder into expecting that there should be a relationship between compensation actually paid in a given year and the cumulative stock investment value at the end of that year. Therefore, we recommend that the Proposed Rules be changed to require a separate disclosure for TSR under the heading "Three-Year Performance." Issuers would provide the TSR for the most recently completed three-year period expressed as a single annualized percentage return. The single annualized percentage return compounded for three annual periods would result in the actual TSR for the three-year period. By separating the compensation actually paid and TSR information into two disclosures, each issuer could then explain the relationship in a manner that best fits its own circumstances. We also believe that providing shareholders with an annualized percentage return calculation is more useful than providing shareholders with distinct theoretical dollar values that assume an initial investment of $100 and resultant dollar values at one-, two-, three-, four-, and five-year intervals. In addition, showing TSR as a percentage return rather than as a dollar amount is more aligned with how shareholders think about financial performance. Finally, as discussed under item 5 below, issuers should be given the option to disclose a similar TSR for a selected Peer Group.

3. The compensation actually paid and TSR information should be limited to three years for all issuers.

We believe a three-year period is sufficient for illustrating the relationship between compensation actually paid and the financial performance of the issuer. A five-year disclosure increases the likelihood that exceptions to the relationship will need to be explained and the shareholders' understanding of the relationship will be less clear. For example, over a five-year period, an issuer is more likely to experience turnover in its NEO population or experience changes in its compensation programs. Such changes will appear as an aberration in the compensation actually paid from year to year and would require the issuer to more frequently need to expand the narrative discussion to explain the aberration. In addition, shareholders are accustomed to a three-year disclosure, and the incremental value of expanding the disclosure for this limited purpose to five years is small relative to the additional administrative burden for the issuer. Finally, the discussion of the relationship between compensation actually paid and the financial performance of the issuer over a three-year period should complement and reinforce the issuer's discussion of compensation in other sections of the proxy statement. Expanding the time reference for this discussion from three years to five years would be counterproductive with respect to this objective.

4. Separate disclosures for the Principal Executive Officer ("PEO") and other NEOs should not be required, and the disclosure of compensation actually paid should be limited to that of the PEO.

In the vast majority of cases, the structure of the compensation paid to the PEO mirrors the structure of the compensation paid to the other NEOs. Where the structures are materially different, issuers are already required to discuss the differences in the Compensation Discussion and Analysis ("CD&A") or narrative to the SCT. Therefore, we recommend that issuers not be required to separately calculate and disclose the compensation actually paid to the PEO and actually paid to the other NEOs.

If the Commission agrees that separate disclosures should not be required, then the Commission will need to decide whether or not the compensation actually paid should comprise all NEOs. We believe this new compensation disclosure should be limited to that of the PEO. First, it is clear that shareholders and other interested parties have a laser focus on the PEO's pay. Also, there is a significant administrative burden and cost associated with calculating compensation actually paid for NEOs other than the PEO, and we do not believe the incremental effort is warranted. Finally, it is common for the individual NEOs (other than the PEO) to change from year to year. This makes it difficult to draw meaningful conclusions related to the compensation data for the other NEOs as a group for a three-year (or five-year) period. Therefore, we recommend that calculation of compensation actually paid and the related discussion of relationship between that compensation and the financial performance of the issuer be limited to the PEO's compensation.

With respect to the calculation of compensation actually paid to the PEO, the Proposed Rules indicate that when there are two or more PEOs in a given reporting year, the compensation actually paid to those PEOs should be reported as a combined total. Again, in the context of demonstrating the relationship of compensation actually paid to the financial performance of the issuer, we believe the combined total compensation of two or more PEOs should be adjusted to eliminate any overlapping compensation. For example, if a PEO retires halfway through the fiscal year and is replaced by an executive officer who worked for the same issuer during the first six months of the year, the proposed calculation of compensation actually paid would include 18 months of salary for the two PEOs. We think this would distort the calculation of PEO compensation actually paid. Therefore, we recommend using only the compensation "paid" with respect to the period of time the individual was serving as PEO. Adjustments similar to the one needed for overlapping salary payments should be made for the pro rata portion of incentives and other elements of compensation that are attributable to overlapping periods of service.

5. Disclosure of Peer Group Total Shareholder Return (TSR) data should be optional.

If the Proposed Rules become effective in their present form, issuers will have to disclose a Peer Group TSR for up to a five-year period. The Peer Group used for this purpose is restricted to the index or issuers used for the Performance Graph under Item 201(e), or a different Peer Group disclosed in the CD&A. We recommend that Peer Group TSR disclosure be optional rather than required. In addition, we recommend that the instructions provide that issuers may include alternate peer data sets and alternate financial performance measures in the narrative discussion of pay versus performance (assuming the issuer has concluded it is material to the shareholders' understanding of the relationship between compensation actually paid and the financial performance of the issuer).

In the context of Section 953(a) of Dodd Frank, we believe that, for some issuers, Peer Group TSR may be relevant to understanding the relationship between the compensation actually paid to an executive officer and the financial performance of the issuer's stock. For example, an issuer might calculate the payment under a multiyear long-term incentive plan based upon the performance of the issuer's TSR relative to the TSR of the companies in a select Peer Group. However, use of Peer Group TSR is only one of many criteria an issuer may choose to determine pay, and for many issuers Peer Group TSR is not a material consideration in establishing incentives for executive officers.

Furthermore, we recognize the existing disclosure requirements for executive compensation are already quite extensive and, in response to pressure from various shareholder advisory firms, companies have expanded their narrative disclosures beyond existing Item 402 requirements. Therefore, we believe any mandated additions to Item 402 to comply with Dodd Frank should be restricted to information that is absolutely essential to meeting the Dodd Frank mandate. Since Section 953(a) of Dodd Frank does not specifically require disclosure of Peer Group TSR, and since such information is not in all cases material to understanding the relationship of compensation actually paid to the financial performance of the issuer, we believe Peer Group TSR disclosure should be optional.

Finally, with respect to the calculation of TSR of a particular Peer Group, we recommend that the issuer be allowed to calculate the TSR without weighting the returns according to the respective issuer's stock market capitalization. If a particular Peer Group has one or more very "large cap" companies, the Peer Group TSR will be improperly skewed towards the performance of those large cap companies. Additionally, when comparing an issuer's TSR to that of a particular Peer Group that is reflective of the pay-setting process, investors are concerned with the issuer's TSR relative to the individual ranking (and sometimes collective average) of TSRs of the Peer Group companies and not a hypothetical investment weighted according to market capitalization.

6. If pension service cost remains an element of compensation actually paid, we recommend consideration of alternatives/refinements to the proposed service cost.

As noted above, we believe it is appropriate to exclude pension benefits from the new disclosures entirely. By their nature, pension benefits are deferred compensation, and are generally not paid to participants until after separation from service. As a result, it may be misleading to users of financial statements to include pension benefits in a table that purports to show compensation actually paid during the year when in fact no payment is being made to the NEO.

If pension benefits are to be included in the new disclosures despite the concerns raised above, we agree that the concept of service cost—i.e., the value of the additional benefits accrued during a fiscal year—represents a more accurate measure of compensation for the year than the change in the Present Value of Accrued Benefits ("PVAB"), which is currently disclosed in the SCT. The change in PVAB reflects a number of factors that we do not believe should be considered compensation—e.g., the impact of changes in discount rates, mortality rates, and other economic and demographic assumptions. The change in PVAB would also include increases in the value of previously reported compensation amounts that occur solely due to the passage of time (i.e., the discounting period is one year shorter at the end of the year than at the beginning of the year, which causes an increase in the PVAB that is not due to new compensation, but simply reflects the fact that the executive is one year older and one year closer to payment of a compensation amount that was previously reported). Including these items can be misleading, as it does not give users of financial statements a clear picture of how much of the change is due to additional benefits being accrued and how much is due to changing economic conditions and other factors.

However, the proposed regulations do not provide guidance on how "service cost" would actually be determined for purposes of the new disclosures, other than to say that the Commission intends to use information that would be readily available to plan sponsors. The most readily available service cost information would be the service cost component of ASC 715 pension expense. However, while this information is readily available, it may not be an accurate measure of compensation for the current year for a specific executive.

- For pay-related plans, the ASC 715 service cost generally includes a projection of future pay increases through separation from service, which is inconsistent with how the PVAB is calculated for the SCT. The accuracy of these projected future pay increases is inherently uncertain. Also, future pay increases should arguably be attributed to service in future years, rather than being included in the current value of benefits.
- In addition, other assumptions reflected in the ASC 715 service cost such as turnover and retirement rates likely do not align with the assumptions used to calculate the PVAB, and these assumptions are generally set at a plan level so that they may not represent a best estimate for a specific individual.

We would therefore recommend that the SEC consider alternatives to the ASC 715 service cost that may be more representationally faithful to the SEC's objectives. As one alternative to the ASC 715 service cost, the Accumulated Benefit Obligation ("ABO") service cost could potentially be used. The ABO service cost should generally be available from valuation systems, and would not require much more effort to obtain than the ASC 715 service cost. Using the ABO service cost would address the issue of pay projection raised above, since the ABO service cost represents the increase in benefits attributable to additional pay and service in the current year (i.e., it assumes no pay projection beyond the current year). However, the other assumptions underlying the ABO service cost would generally match those underlying the ASC 715 service cost, so the same limitations noted above would apply with regard to these assumptions.

Another alternative approach that would require some additional information from plan sponsors, but would better represent the value of additional benefits accrued in the current year, would be to determine the change in PVAB in a manner similar to that used for the SCT, but using the same discount rate and other actuarial assumptions at the beginning of the year as at the end of the year. This approach would isolate the value of the additional benefits accrued for current-year service, while not obscuring the value by including changes in actuarial assumptions in the PVAB. We believe it is appropriate to exclude gains and losses resulting from assumption changes, since gains and losses should theoretically offset each other over time and do not truly represent compensation for services rendered. Actuaries currently calculate the change in PVAB for the SCT, and it would generally require only a minor modification of these calculations to use different beginning-of-year assumptions.

This alternative approach could be further refined by disclosing the present value, using year-end assumptions, of the increase in accrued benefit during the year rather than the change in PVAB. This would exclude any increase in the PVAB that occurs solely due to the passage of time, which, as noted above, does not represent new compensation.

We believe the SEC should also consider other issues related to the disclosure of pension benefit values, such as how the value of plan changes should be disclosed. Using ASC 715 service cost or ABO service cost raises the question of how or whether to reflect plan changes. Plan changes impacting past service are generally amortized into ASC 715 pension expense as prior service costs rather than being included in current-year service cost, while amendments impacting current service may be reflected in service cost even if they do not legally take effect until a future year. Both of these outcomes make the use of ASC 715 service cost problematic. The use of a change in PVAB or the present value of the increase in accrued benefit during the year would generally avoid these issues. The impact of any plan amendments would be included in the PVAB and the accrued benefit in the year in which the amendment becomes effective (i.e., when it becomes a part of the accrued benefit). Plan amendments that do not become effective until a future year would not be included until that future year (similar to recognizing the amendment when it becomes "vested").

Finally, in determining the value of benefits accrued in the current year, we believe the SEC should also consider excluding the value of any non-vested benefits to be consistent with the proposed treatment of equity awards.

Exhibit A

Name of Principal Executive Officer	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Total ($)
Compensation Actually Paid	2016						
As Reported in Summary Compensation Table	2016						
Compensation Actually Paid	2015						
As Reported in Summary Compensation Table	2015						
Compensation Actually Paid	2014						
As Reported in Summary Compensation Table	2014						