STEVEN HALL & PARTNERS
EXECUTIVE COMPENSATION

July 6, 2015

Mr. Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

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Re: File Number S7-07-15; Responses to Select Request for Comments to the Proposed Pay versus Performance Disclosure

Dear Mr. Fields:

This letter sets forth the comments of Steven Hall & Partners regarding the proposals of the United States Securities and Exchange Commission (the "Commission") relating to the pay versus performance disclosure, as set forth in Release No. 34-74835 (April 29, 2015) (the "Proposing Release").

Steven Hall & Partners ("SH&P") is a nationally recognized compensation consulting firm headquartered in New York, focusing on executive compensation, board remuneration and related corporate governance matters. SH&P was formed in 2005 and is comprised of highly experienced compensation professionals with experience and expertise in the areas of accounting, regulatory and shareholder relations issues. We serve clients of varying size in a range of industries; this diversity of exposure coupled with our expertise forms the foundation for our advice.

Our clients are committed to aligning pay tightly with performance, and we have worked together with them to ensure that their pay for performance story is well communicated in the Compensation Discussion & Analysis ("CD&A") and in outreach efforts with shareholders. We are very concerned about the potential for unintended outcomes if this disclosure is implemented as described in the Proposing Release.

In our view, the approach suggested in the Proposing Release is overly prescriptive, and represents a troubling move away from the principles-based approach of many of the Commission's other recent compensation disclosure proposals, including, notably, the rule-making that led to the current CD&A format. We believe that a principles-based approach to the pay versus performance disclosure would provide companies with the flexibility necessary to communicate their pay for performance story more fulsomely, and beyond the use of one metric, and would enhance the benefit to shareholders of the proposed disclosure.

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Furthermore, in today's world where we already have a Summary Compensation Table, a CD&A that likely discusses target compensation, compensation actually paid, realized and/or realizable pay, we are now adding a further set of calculations which may only serve to further confuse readers with regard to the pay for performance picture.

Our comments reflect our position that the final rules should maximize flexibility and permit a registrant to select the approach most appropriate to the registrant's circumstances. We respectfully request your consideration of the following comments in connection with the Proposing Release.

<u>Format and Proposed Location of Disclosure</u>

Disclosure Should Not Be Required As Part of the CD&A

We support the position, reflected in the proposal, that the pay versus performance disclosure not be part of the CD&A, even though the information represents an analysis of the relationship between executive pay and long-term performance. Over the past several years, companies have worked hard to ensure that the CD&A narrative communicates how the company's pay program is aligned with and supportive of the long-term strategy of the company. In our experience, these documents are thoughtfully and carefully drafted, and are intended to tell the story of how pay and performance are aligned.

Most CD&As today already have a detailed discussion of the company's intent to align pay with performance, coupled with a demonstration of how that intent has played out in practice. We are concerned that injecting the pay versus performance disclosure into this narrative could be disruptive and detrimental to the company's ability to effectively communicate with shareholders why they believe the pay program is in their best interests and warrants a "FOR" vote on the Say on Pay ballot item. Furthermore, the pay versus performance disclosure, as proposed, is narrowly defined, and in many cases will conflict with the company's views on either pay actually earned or performance over the most relevant historical period and how performance should be measured. This fact, coupled with the Commission's admonishment that any additional insight into the pay versus performance disclosure not be more prominently featured, make placement in the CD&A problematic.

Summary Compensation Table Total Compensation Should Not Be Included

While we recognize the Commission's intent to provide shareholders with additional relevant points of information to assist in their assessment of the long-term alignment between pay and performance, we do not believe that requiring the Total Compensation value from the Summary Compensation Table is helpful or relevant.

The Total Compensation value from the Summary Compensation Table mixes and matches actual pay (base salary, annual incentive and cash long-term incentive payouts), grant date or target pay (long-term equity incentive values), benefits and perquisites, changes in pension values (with wide variations in value driven by interest rate changes and actuarial assumptions) and, in some cases, deferred compensation earnings. As such, it does not serve as an appropriate base-line from which to assess compensation actually paid, or to compare one company to another.

Instead of disclosing Summary Compensation Table Total Compensation values, the new disclosure table could require disclosure of the percentage of target level pay earned based on performance for performance periods ending in a given year, for those compensation elements that vary the payout against some target level.

Companies Should Retain Flexibility to Choose Graphic Presentation of the Disclosure

We believe strongly that companies should be permitted to choose the graphic presentation of the disclosure that best fits their specific facts and circumstances. Given the scrutiny of executive compensation disclosure, we do not believe that companies would be able to use this flexibility to "cherry pick" the format of disclosure that presents their information in the best light in any given year. Rather, we believe that the selected presentation format would likely reflect the company's most thoughtful view of their individual pay versus performance story, and that this format would be changed only in unusual circumstances.

Executives Covered

We do not believe that the proposed pay versus performance disclosure should also include the aggregated named executive officers other than the CEO (the "other NEOs"). For many reasons, including most importantly the staggered vesting of long-term incentive awards and changes in roles and responsibilities over time, the alignment between pay and performance over time for any given executive can be obscured. This problem is compounded when you layer in changes in NEOs over time, both in terms of individual incumbents and roles/titles, the inclusion of departed NEOs and compensation paid to induce lateral hires to join a company. Because of these discrepancies, we believe that the comparison of pay versus performance for aggregated other NEOs will not be meaningful, either viewing the company alone or in comparison to other companies.

We believe that focusing the pay versus performance disclosure on the CEO-only reduces the outside variables that could impact the demonstration of the alignment between pay and performance, and provides shareholders with a more meaningful demonstration of how the pay program is working. Additionally, in our experience, it is the CEO who has the greatest ability to impact corporate performance, and is the individual whose compensation is most impacted by, and therefore aligned with, corporate performance.

Should the Commission wish to require information regarding additional executives, one alternative would be to include the CFO in the table. Because disclosure of CFO compensation is already required, disclosure of both the CEO and CFO position would be comparable across all companies.

We do not believe it is appropriate to combine the pay of multiple individuals in a year where more than one individual served as CEO (or CFO) in the same fiscal year. Our recommendation would be to disclose the pay for the individual who served in the role as of the end of each fiscal year.

Determination of “Executive Compensation Actually Paid”

Definition of Compensation Actually Paid

Although we have some concerns about the proposed definition of executive compensation actually paid, described below, we believe that this proposed definition has a number of important benefits.

We are in favor of the proposed modifications to the changes in actuarial pension value and earnings on non-qualified deferred compensation, and agree with the Commission that these modifications provide shareholders with a much more valuable portrayal of these amounts. As a separate matter, we strongly advocate making this modification to the values for these items that are currently displayed in the Summary Compensation Table.

We agree conceptually that, for purposes of the new disclosure table, equity awards should be valued on the date these awards become vested (and, for options, exercisable). However, we note that this decision presents a number of challenges when applied to option awards.

We have long been troubled by the impact of executive choice and the variability this imposes on the calculation of realized pay values, and have been proponents of valuing options on the date of vest as a way to limit the impact of this variability and more accurately demonstrate the Compensation Committee’s intent when making the award.

We also recognize that options that are underwater on the date of vest retain some value associated with the executive’s ability to hold the options for the remainder of the term and exercise at some later date, and that a Black-Scholes calculation is one way of determining this value. However, it is also true that even on the date of exercise, the Black-Scholes value is not the same as the intrinsic value of the option, and executives realize the intrinsic value, rather than the Black-Scholes value, of the award upon exercise. Furthermore, in our experience working with companies to assess how pay and performance are aligned within their organization, we find that there are mixed views regarding whether or not Black-Scholes or intrinsic valuations of options are most appropriate.

Therefore, we believe that the proposed disclosure would be enhanced by showing both the intrinsic and Black-Scholes values of the awards, or alternatively, allowing companies to select the valuation methodology they believe to be most appropriate while footnoting the other value, so as to permit shareholders to select the valuation methodology they believe best enables them to assess the alignment between pay and performance at a particular company or across multiple companies.

Once companies have made a determination about which valuation is most appropriate given their specific facts and circumstances, they should be precluded from changing the approach or, alternatively, required to provide transitional disclosure showing both valuations for some period of time.

Principles-Based Approach to Determine Compensation Elements Included

While we recognize the benefit of a standardized definition for compensation actually paid, there are circumstances in which a prescriptive definition may not accurately reflect how the company intended to align pay and performance. For example, today many companies have long-term performance-based awards which are earned based upon performance ending with the fiscal year, but which may not vest until the following year once performance has been certified. Under the proposed rule, these awards would be included in the year of vest, when for purposes of demonstrating an alignment between pay and performance, they might be more appropriately included in the final fiscal year in which the award is earned. We note that this idiosyncrasy does not similarly impact the allocation of annual incentive payments to the appropriate performance year. We are therefore strong advocates of permitting companies flexibility to make modifications in these circumstances, to ensure that their information reflects the linkage between pay and performance intended in the design of the compensatory awards.

Measure of Performance

Use of TSR as Measure of Performance

By defining performance solely in the form of TSR, we believe that the Commission is highlighting a performance metric for both companies and investors that is limited in scope and may not directly correlate with underlying operating performance. A more principles-based approach would permit companies to provide a more holistic view of performance, taking into account key financial and operational metrics relevant to the company and industry, in addition to long-term stock price performance. In many pay programs, these financial and operational metrics serve as important determinants of executive pay, and ignoring them deprives shareholders of an important data point regarding how the company believes pay to be aligned with performance.

We are troubled by the over-focus on relative TSR performance in some pay programs today, at the expense of fundamental financial and operational metrics which will drive business performance (and likely stock price performance) over the longer-term. For many companies, the greatest performance-based pay element, typically performance-vested long-term awards (which represent an average of 26% of a CEO's total pay package[1]), is based on relative TSR performance. Requiring that companies demonstrate their pay versus performance alignment using TSR as the sole performance metric will put an even greater emphasis on this metric; the disclosure rule thus will impel companies not yet using TSR to adopt it, or companies using TSR to do so to an even greater degree, in an effort to show that their pay program is well correlated with performance. We do not believe that such an emphasis is in the best long-term interests of shareholders, whom this new disclosure is intended to serve.

We strongly believe that the Commission should permit companies to select additional performance metrics which they believe enable shareholders to more accurately assess their performance over time. The Commission should clarify in the adopting release that

[1] Incentive Plan Practices: Aligning Executive Pay with Performance, May 15, 2015 study conducted by Steven Hall & Partners and Main Data Group, Inc.

companies should be permitted to add additional columns to the table to reflect these company-selected performance metrics.

Registrant's TSR Peer Group

While we question the use of TSR as the sole measure of performance, we support the Commission's decision to provide the registrant with the flexibility to select the peer group they believe to be most relevant. We believe that this will enable companies to provide shareholders with the most accurate benchmark of their performance.

Calculation of TSR

As currently proposed, the time periods included in the TSR calculations differ for each year of compensation disclosure. For example, in a proxy statement following the end of fiscal 2018 (if showing five years of pay and performance), although the fiscal 2018 pay disclosure would be compared to a five-year TSR, the fiscal 2017 disclosure in the same table would be compared to a four-year TSR. As a general matter, we do not understand the rationale for such a decision. If the intent is to demonstrate an alignment between pay and performance over some pre-defined period of time, why would the time-period used to calculate the performance measure differ?

While we do not support the exclusive use of TSR, or the proposed five-year time period, if this is the desired approach, why not reflect a five-year TSR for each year of the table. This would ensure that data comparisons are more comparable over the table's time period. Additionally, given the mix of performance periods included in any given actual pay value, perhaps it might make sense to include one- and three-year TSRs in addition to a five-year TSR to further enhance shareholders' ability to assess the alignment between pay and performance over a variety of performance periods.

Time Period Covered

In keeping with our general stance on providing companies with the flexibility to most accurately present their alignment between pay and performance, we believe that companies should be permitted to select the time period covered, perhaps with some minimum requirement, such as three years.

Thank you for the opportunity to comment.

Respectfully submitted,

Steven Hall & Partners