

FACT SHEET
Pay Versus Performance
SEC Open Meeting
April 29, 2015

Action

The Commission will consider whether to propose rules to require companies to disclose the relationship between compensation actually paid to executives and the financial performance of the company. The new rules would provide greater transparency and allow shareholders to be better informed when they vote to elect directors or vote on executive compensation.

The proposed rules would implement Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Highlights of the Proposed Rules

The proposed disclosure would be required in proxy or information statements in which executive compensation disclosure is required.

The proposed rules would require companies to disclose in a new table the following information:

- Executive compensation actually paid for the principal executive officer, which would be the total compensation as disclosed in the summary compensation table already required in the proxy statement with adjustments to the amounts included for pensions and equity awards. The amount disclosed for the remaining named executive officers identified in the summary compensation table would be the average compensation actually paid to those executives
- The total executive compensation reported in the summary compensation table for the principal executive officer and an average of the reported amounts for the remaining named executive officers
- The company's total shareholder return on an annual basis, using the definition of total shareholder return (TSR) included in Item 201(e) of Regulation S-K, which sets forth an existing requirement for a stock performance graph
- The TSR on an annual basis of the companies in a peer group, using the peer group identified by the company in its stock performance graph or in its compensation discussion and analysis

The disclosure would be required for the last five fiscal years, except that smaller reporting companies would only be required to provide disclosure for the last three fiscal years. Smaller reporting companies would not be required to present a peer group TSR because they are not required to disclose an Item 201(e) performance graph or a compensation discussion and analysis.

Companies would also be required to tag the disclosure in an interactive data format using eXtensible Business Reporting Language, or XBRL. This requirement would be phased-in for smaller reporting companies, so that they would not be required to comply with the tagging requirement until the third annual filing in which the pay-versus-performance disclosure is provided.

Using the information presented in the table, companies would be required to describe the relationship between the executive compensation actually paid and the company's TSR, and the relationship between the company's TSR and the TSR of its selected peer group. This disclosure could be described as a narrative, graphically, or a combination of the two.

Executives Covered

The proposed rules would require disclosure about the named executive officers for whom disclosure is currently required in the summary compensation table. For each year in which disclosure would be required, companies would present the information separately for the principal executive officer, and as an average for the remaining named executive officers identified in the table.

Determination of Executive Compensation Actually Paid

Under the proposal, executive compensation actually paid would be calculated using compensation that companies report in the summary compensation table already required in the proxy statement as a starting point with adjustments relating to pension amounts and equity awards. Companies would be required to disclose the adjustments to the compensation as reported in the summary compensation table. Pension amounts would be adjusted by deducting the change in pension value reflected in that table and adding back the actuarially determined service cost for services rendered by the executive during the applicable year. Smaller reporting companies would not be required to make adjustments in pension amounts because they are subject to scaled compensation disclosure requirements that do not include disclosure of pension plans.

Under the proposal, equity awards would be considered actually paid on the date of vesting and at fair value on that date, rather than fair value on the grant date as required in the summary compensation table. Both amounts would be disclosed in the new table. A company would be required to disclose the vesting date valuation assumptions if they are materially different from those disclosed in its financial statements as of the grant date.

Covered Companies

The proposed rules would apply to all reporting companies except for foreign private issuers, registered investment companies and emerging growth companies, which are exempt from the statutory requirement.

Transition Period

The proposed rules would provide a phase-in for all companies. Companies, other than smaller reporting companies, would be required to provide the information for three years in the first proxy or information statement in which they provide the disclosure, adding another year of disclosure in each of the two subsequent annual proxy filings that require this disclosure. Smaller reporting companies would initially provide the information for two years, adding an additional year in their subsequent annual proxy or information statement that requires this disclosure.

What's Next?

If approved for publication by the Commission, the proposed rules will be published on the Commission's website and in the Federal Register. The comment period for the proposed rules will be 60 days after publication in the Federal Register.

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