



Experts Work to Establish a Consistent Framework for Alternative Measures of Pay

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When conducting pay-for-performance evaluations, many shareholders and the large proxy advisory firms, e.g., Institutional Investor Services and Glass Lewis, commonly rely on pay figures based on Summary Compensation Table (SCT), representing the value of compensation earned or awarded during the year.

SCT-reported values may be appropriate for base salary and earned short-term incentives. However, the use of grant-date values of long-term incentive awards (typically, the largest component of pay for proxy-named executives) is often criticized as inappropriate; the principal argument being that unlike cash elements, these values rarely account for the effect of company performance and stock price.

In response, companies have begun including supplementary disclosures using a variety of definitions, including “realizable pay” or “realized pay.” In fact, several hundred companies have voluntarily included this information in proxy filings.

In an effort to encourage consistency in disclosures – and inform the actions of the SEC – The Conference Board established the Alternative Pay Disclosure Working Group (“Working Group”). The Working Group is focused on developing definitions of pay that reflect the company performance and Pay Governance has been privileged to be part of this important Conference Board initiative.

Additional information about the Alternative Pay Disclosure Working Group and its recent work can be found at: <http://www.conference-board.org/alternativepaydisclosure>.

Talking Points

- In today’s Say on Pay environment it is critical that companies demonstrate alignment between pay and performance.
- Common approaches based on proxy-disclosed pay figures provide an incomplete picture of how the value of compensation, particularly, long-term incentives, are affected by company performance and stock price.
- In the absence of Dodd-Frank implementation guidance from the SEC, hundreds of companies have begun to include supplementary disclosures in order to present a more complete story to investors.
- The Conference Board has established an Alternative Pay Disclosure Working Group to improve consistency in the alternative pay definitions.
- The Working Group has developed a set of draft recommendations and is currently soliciting feedback from investors and other stakeholders.

This Viewpoint is intended to inform compensation committees, executives and compensation professionals about developments that may affect their companies and should not be relied on as providing specific company advice, or as a substitute for legal, accounting or other professional advice.

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