Pearl Meyer

COMMENT LETTER | JUN 2025

Pearl Meyer's Comment Letter to the Securities and Exchange Commission

Deb Lifshey

MANAGING DIRECTOR

Vanessa Countryman
Secretary
United States Securities and Exchange Commission
100 F Street, N.E. Washington, D.C. 20549-1090

Re: Executive Compensation Roundtable – File 4-855

Thank you for the opportunity to submit comments regarding the current executive compensation disclosure guidance to the Commission. Below we provide high level commentary from the lens of executive compensation consultants implementing and assessing the usefulness of the rules and various amendments over the past two decades. In this letter, we focus on some specific areas where we believe the rules should be re-examined and potentially revised. We appreciate the opportunity to contribute to this important project and hope our comments assist the Commission in its efforts to strike an appropriate balance—ensuring investors receive material, meaningful, and accessible information, while also taking into account the practical compliance challenges faced by many of our clients.

General Commentary

As a general matter, we commend the Commission for the redesign of executive compensation rules nearly two decades ago. Information that can now be gleaned from the required narratives and tables are extremely helpful and useful to compensation committees and investors alike. The Commission appropriately recognized that all companies are unique, and a one size fits all scheme would not be meaningful. We believe the relatively unstructured format of the Compensation Discussion and Analysis (CD&A), along with most of the accompanying narratives to the required tables, enables issuers to tailor their messaging and highlight their philosophies, processes and decision-making approach, while still meeting compliance requirements.

A suggested enhancement may include a requirement to include a dedicated section at the beginning of the CD&A summarizing the prior year's key pay decisions and the rationale behind them. While many companies now provide an executive summary, critical information—such as sign-on awards, one-time grants, or significant changes to pay structure—often remains scattered throughout the document or relegated to the back of the CD&A, particularly when previously disclosed in an 8-K. A required clear, concise recap of the most recent year's compensation actions, presented up front, would promote greater transparency and help investors better understand the context and reasoning behind those decisions.

Reduced Prescriptiveness for Pay Versus Performance

Requirements

Section 953(a) of the Dodd-Frank Act directed the SEC to adopt rules requiring companies to disclose a clear description of compensation required under Item 402 of Regulation S-K, including how that compensation relates to financial performance—specifically taking into account changes in stock value, dividends, and distributions. This was implemented through the Pay vs. Performance (PVP) disclosure under Item 402(v), which took effect for proxy statements starting in 2022. Congress did not prescribe the exact rule adopted by the Commission and we believe that the Commission could have taken the position that disclosure required under Section 953(a) was already available in existing compensation tables. Instead, an incredibly detailed and lengthy rule was released.

As practitioners, we have observed that in the brief period that PVP disclosure has been required, it has become one of the more time-consuming and resource-intensive portions of proxy statements to prepare. It has yielded inequitable burdens on some companies more than others. For example, it has resulted in unfairly penalizing the optics of those companies that have longer equity vesting periods — a practice generally recognized as promoting good governance. It is more burdensome to those companies that have monthly vesting periods than those that have the more typical annual vesting cycles. It poses competitive harm concerns to those companies that are now required to provide more specific disclosure about in-cycle performance awards.

Given that the proxy advisory firms use their own proprietary methodologies for calculating pay versus performance and largely disregard this disclosure, it appears to provide minimal value to investors while placing a significant burden on issuers. We respectfully encourage the Commission to reevaluate the current rule and consider either repealing it or reducing its scope by eliminating certain components that are disproportionately burdensome, infrequently used and of questionable utility. These elements, in order of significance, include the following:

- **Eliminate Non-CEO Named Executive Officer (NEO) Disclosure:** The average compensation of non-CEO NEOs adds complexity, is often misleading due to year over year changes and one-time events, and provides limited investor value. Disclosure should focus solely on the Chief Executive Officer (CEO).
- **Eliminate Net Income and Company-Selected Measure (CSM):** These metrics are either already disclosed elsewhere (e.g., CD&A or financials) or not aligned with incentive plans, making their inclusion in the table redundant and potentially confusing.
- **Align Compensation Actually Paid (CAP) and Total Shareholder Return (TSR) Time Frames:** There is a mismatch between annual CAP and cumulative TSR. This can be corrected by either (a) adding totals for CAP and SCT at the bottom of the table or (b) showing cumulative CAP and SCT over the disclosure period.
- **Remove Reconciliation to Summary Compensation Table (SCT):** The reconciliation of CAP to SCT adds unnecessary complexity without providing material insight, and should be eliminated.
- **Eliminate Next 3–7 Measure Table:** The separate tabular disclosure of incentive measures duplicates CD&A content and adds limited value.
- **Eliminate the Narrative Relationship Disclosure:** The additional narrative or graphical relationship is included by our clients solely for compliance purposes, with limited substantive value.

Revise Required Perquisite Disclosure for Security Related Expenses

Under current rules, Item 402(c)(2)(ix) of Regulation S-K requires the disclosure and quantification of perquisites, including personal security arrangements, if the aggregate value of such perks exceeds the greater of $10,000 or a specified percentage of total compensation. This includes security measures such as home security systems, drivers, and use of corporate aircraft where deemed necessary for the executive's safety.

In light of recent events—including the tragic death of a senior executive at UnitedHealth Group— this requirement deserves urgent reconsideration. Security-related expenses are not discretionary benefits; they are often mandated by an independent security assessment and are a critical component of an executive risk mitigation strategy. Including these costs in the Summary Compensation Table can both mislead investors and deter companies from implementing adequate protections.

We respectfully urge the Commission to either consider complete removal of mandatory disclosure for security-related perks or in the alternative, to consider creating a separate disclosure category, possibly with a significantly elevated reporting threshold, for expenses related to security and aircraft usage when directly tied to personal safety. These costs are typically treated as taxable compensation under IRS rules, providing a sufficient transparency mechanism without necessitating duplicative SEC reporting.

As a matter of policy, we also encourage the Commission to revisit and revise the existing disclosure framework for security-related perquisites. At a minimum, we recommend either (1) excluding bona fide security measures from the definition of perquisites for disclosure purposes, or (2) significantly increasing the disclosure threshold for such items. These costs should not be conflated with lifestyle enhancements; they are protective measures and often imposed upon executives, not voluntarily elected.

In short, we ask the SEC to consider relying on the Internal Revenue Code and tax reporting as the appropriate mechanism for transparency in this area, rather than continuing to subject personal security expenditures to heightened public scrutiny in the proxy disclosure framework.

Feedback on the Value of the CEO Pay Ratio Disclosure

Section 953(b) of the Dodd-Frank Act directed the SEC to amend existing rules to require companies to disclose to include a number and narratives around the median of the annual total compensation of all employees of the company, except the CEO; the annual total compensation of its CEO; and the ratio of those two amounts.

In our experience, this disclosure does not provide material or decision-useful information compensation committees, who focus on more meaningful strategic drivers in setting executive compensation. Nor has this disclosure proven useful to investors, who are primarily concerned with whether a company is appropriately compensating its CEO based on responsibilities and performance. The relevant analysis has historically focused on comparisons to CEO pay at other similar companies, not the median employee's compensation. This information is already accessible through each company's Summary Compensation Table in its proxy statement. Similarly, institutional investors tend to rely on the proxy advisory firms' assessment of CEO pay relative to peer groups, not the CEO pay ratio.

Beyond its limited relevance to investors, the CEO pay ratio is fundamentally flawed as a comparative datapoint. It lacks consistency across companies due to wide variations in workforce composition, geographic distribution, reliance on outsourcing talent, company size, and employee demographics. Year-specific events further distort comparability. As a result, the CEO pay ratio cannot — and should not be — used to draw meaningful comparisons across companies, even in the same industry, where structural differences and year-over-year fluctuations can produce vastly different outcomes.

Moreover, while (at least after the first year of calculations) the burden of preparing the CEO pay ratio disclosure is not as significant as that of the PVP Table, it still imposes additional work for companies. Organizations must identify the median at least once every three years, collect and reconcile compensation data for international employees often times on different payroll systems and always in other currencies, and calculate full-time equivalents, all of which require extra time and resources.

While we acknowledge that Dodd-Frank mandates this disclosure, nearly a decade of implementation has shown that the CEO pay ratio provides no meaningful value to investors and is not used by compensation committees to drive decisions.

Limit Hypothetical Events in the Termination Table

Item 402(j) requires disclosure of hypothetical termination payments based on the assumption that a termination occurred at the end of the most recent fiscal year. However, the rule does not provide clear guidance as to cases where a named executive officer terminates employment before the proxy is filed. In practice, most practitioners are inclined to retain hypothetical information rather than disclose the actual payments that may have been paid. Respectfully, we believe Item 402(j) should be revised to require disclosure of actual termination payments when a termination event has occurred, as hypothetical scenarios are no longer relevant.

We appreciate the opportunity to provide these comments and respectfully request that the Commission consider these recommendations as part of its ongoing efforts to ensure that executive compensation disclosures remain meaningful, efficient, and aligned with investor needs.

Sincerely,
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Managing Director

About the Author

Deborah Lifshey is a managing director at Pearl Meyer, where she specializes in advising clients on compensation matters from a legal perspective including securities disclosure, taxation and corporate governance issues, negotiation contracts, and reasonableness opinion letters.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.