Pearl Meyer

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SEC Item 402 Proposal: Reshaping Pay Versus Performance, Pay Ratio, Perquisites, and Clawbacks



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Editor's note: On November 13, 2026, the Securities and Exchange Commission (SEC) proposed sweeping amendments to Item 402 of Regulation S-K (the "Proposal"), representing the most significant reconsideration of executive and director compensation disclosure since the 2006 amendments. This three-part series explores the potential new core disclosure framework; major calculations and high-burden disclosures that would be simplified; and disclosures that would be eliminated or substantially streamlined, while underlying governance responsibilities remain.

The SEC's Proposal would substantially simplify four of the more complex executive compensation disclosure requirements: pay versus performance (PVP), CEO pay ratio, perquisites, and clawbacks. The proposed changes would reduce administrative burdens while introducing new considerations for how companies calculate, evaluate, and explain executive compensation.

Proposed Changes: At a Glance

Topic	Principal Proposed Change
PVP	▪ Use Total Compensation Earned from the Earned Compensation Table ▪ Retain company cumulative total shareholder return (TSR) ▪ Cover principal executive officer (PEO) and principal finance officer (PFO) ▪ Reduce lookback from five years to three

Pay ratio	■ Use US full-time employees, excluding temporary and seasonal employees ■ Calculate PEO and median-employee compensation using the Granted Compensation Table methodology ■ Refresh median employee every five years
Perquisites	■ Raise aggregate reporting threshold from $10,000 to $150,000 ■ Add optional *de minimis* tracking exclusion ■ Revise interpretive guidance and allow greater valuation flexibility
Clawbacks	■ Remove clawback explanation and Form 10-K cover-page checkboxes, without changing recovery requirements

PVP: Replaces CAP with Total Compensation Earned

The Proposal would significantly simplify the PVP disclosure adopted under Dodd-Frank. The SEC proposes using the Total Compensation Earned amount from the new Earned Compensation Table in place of the current Compensation Actually Paid (CAP) calculation. It would also limit the required disclosure to the PEO and PFO, reduce the disclosure period from five years to three years for all companies, and retain company cumulative TSR as the only required performance measure.

The SEC would eliminate the mandatory disclosure of net income, peer-group TSR, and the company-selected measure and make additional performance measures optional. It would eliminate the current three-to-seven-item tabular list of the most important financial performance measures. The proposed approach would also eliminate the complex average compensation calculation for non-PEO named executive officers (NEOs); the PFO would be presented individually. EGCs are exempt from reporting.

Pearl Meyer Observations on PVP Simplification

Replacing CAP with Total Compensation Earned is more than a simplification of the calculation; it changes what PVP is measuring. Under the Proposal, equity value would be reflected when stock awards vest and options are exercised, rather than being remeasured annually while outstanding. This could make annual PVP outcomes more volatile and may weaken year-by-year alignment with performance metrics over a multi-year cycle. Companies should assess how the new PVP values would look over several years and will need to consider effective narrative context explaining when awards were granted, the performance periods involved, and why compensation is realized in a particular year.

Although the proposed approach would substantially simplify the PVP calculation, it does not necessarily provide a better measure of pay-for-performance alignment. Realized compensation can be heavily influenced by the timing of vesting and option exercises, while a three-year TSR may not reflect the performance period associated with those awards. Compensation committees should be cautious about the reader drawing conclusions from a single year's results and consider whether supplemental disclosure would help investors understand the relationship between compensation outcomes and sustained performance.

Although company TSR would remain the only required performance measure in the PVP table, companies would still be expected to discuss material incentive measures in the CD&A. Rather than fitting those measures into a prescribed table and accompanying list, companies would have greater latitude to explain how financial and operational performance drives compensation decisions and to focus the discussion on the measures that are most meaningful to the company and its shareholders.

CEO Pay Ratio: US Full-Time Employee Population and Five-Year Refresh

The Proposal revises the current rule to determine the median employee from among full-time employees of the company and its consolidated subsidiaries who are employed in the US or its territories. Temporary and seasonal employees, part-time employees, and employees outside of the US and its territories would be excluded from the population. If foreign employees are excluded categorically, the current exemptions and detailed provisions addressing non-US employees, including data privacy and *de minimis* exemptions, would be removed as unnecessary. SRCs and EGCs continue to be exempt under the Proposal.

The PEO’s annual total compensation and the median employee’s annual total compensation would be calculated using the methodology reflected in the proposed Granted Compensation Table, rather than the current Summary Compensation Table methodology. The SEC believes this would improve comparability and align the ratio with the compensation opportunity the company grants. The median employee would need to be identified only once every five years, rather than once every three years, unless a material change in the employee population or compensation arrangements significantly

affects the ratio.

Pearl Meyer Observations on CEO Pay Ratio

The proposed changes reflect a meaningful reassessment of the original pay ratio requirements. Although Dodd-Frank called for disclosure based on the median compensation of “all employees,” the SEC adopted a broad interpretation that included international, part-time, seasonal, and temporary employees. Based on its experience with the rule and feedback from companies and investors, the SEC now questions whether that breadth has provided a corresponding benefit to investors, particularly in facilitating shareholder engagement and say-on-pay voting.

The proposed limitation to US full-time employees, together with the five-year median employee refresh, would substantially reduce the administrative burden while preserving the intended purpose of the disclosure. Companies should nevertheless assess how the revised employee population and use of granted compensation may affect their reported ratios, as changes in the ratio may reflect the new methodology rather than changes in underlying pay practices.

Importantly, the five-year refresh should not be viewed as a five-year pass: companies would still need processes to monitor changes in employee population and compensation arrangements that could materially affect the ratio and require an earlier determination.

Perquisites: Raises the Threshold and Revises the Interpretive Guidance

The Proposal would raise the minimum aggregate reporting threshold for perquisites from $10,000 to $150,000 for an NEO. The aggregate threshold would apply to perquisites included in the Miscellaneous Compensation Received column of the Earned Compensation Table. The Proposal would also introduce an optional *de minimis* tracking exclusion for individual perquisites that qualify as *de minimis* fringe benefits under Section 132(a)(4) of the Internal Revenue Code—generally, benefits that are so small in value and provided so infrequently that accounting for them would be unreasonable or administratively impracticable.

Those benefits could be excluded when determining whether the $150,000 threshold has been met and would not need to be tracked for Item 402 purposes. Companies could elect not to use the exclusion.

The Proposal would retain the SEC's existing two-part framework for determining whether an item constitutes a perquisite, but would give companies substantially more flexibility in applying it. Under the current guidance, the first prong—whether an item is integrally and directly related to an executive's job performance—is construed narrowly, and the fact that an item serves a legitimate business purpose or benefits the company does not, by itself, satisfy the test. The second prong similarly treats an item as a perquisite if it provides a

personal benefit, even if it is provided for business reasons or the company's convenience.

The Proposal would move away from this rigid approach by allowing companies to make reasonable, good-faith determinations based on their particular facts and circumstances, including consideration of the business purpose and benefit to the company. It would also eliminate the SEC's prior examples of items that are categorically treated as perquisites, including personal security provided at an executive's residence or during personal travel.

The result would be greater flexibility to distinguish genuine executive personal benefits from expenditures that primarily serve the company's interests.

Pearl Meyer Observations on Revised Perquisite Disclosure

The existing rules create significant administrative burdens and sometimes questionable distinctions between business expenses and personal benefits, particularly on the issue of personal security. The Proposal gives companies greater room to exercise reasonable business judgment without eliminating accountability. It specifically provides meaningful relief, particularly for companies that currently track a large number of low-value benefits or struggle to distinguish business-related security and travel expenses from personal benefits. It recognizes the practical challenges of protecting executives while preserving appropriate disclosure of material personal benefits.

The good-faith standard is not, however, an unrestricted discretion standard: determinations must still be reasonable, and companies should document the facts and rationale supporting material classifications. The $150,000 threshold also represents significant relief, although benefits below the threshold may still warrant disclosure where they are otherwise material to the compensation discussion.

Clawbacks: Recovery Requirements Remain While Disclosure Is Simplified

The Proposal would not change the substantive clawback requirements under Exchange Act rules or the applicable listing standards. It would, however, revise required disclosure by removing the requirement to explain why a company concluded that recovery was not required when relying on an exception, and eliminating the checkboxes on the cover page of Form 10-K relating to financial statement error corrections and related compensation recovery analysis.

The limited revisions are based on the SEC’s view that the underlying recovery framework is mandated by Dodd-Frank and that the proposed changes concern only duplicative or low-value disclosure. Companies would remain subject to the recovery policy, determination of amounts erroneously awarded, recovery efforts, documentation, and

applicable exchange listing standards.

Pearl Meyer Observations on Clawbacks

This is a disclosure change only. Companies should not interpret it as relaxing the substantive clawback policy or the obligation to recover erroneously awarded compensation when a restatement trigger occurs. Compensation committees should continue to oversee recovery decisions, including the analysis of impracticability exceptions and the documentation supporting any determination not to pursue recovery.

What Companies Should Be Considering Now

- Model PVP using Total Compensation Earned and assess how vesting and option-exercise timing would affect the reported annual amounts.
- Assess potential changes to pay ratio calculations, including the US full-time employee population, median employee refresh, and use of granted compensation.
- Review perquisite classification and valuation processes, including the proposed $150,000 threshold, *de minimis* exclusion, and documentation of good-faith determinations.

Concluding Thoughts

The proposed changes to PVP, pay ratio, and perquisites aim to reduce calculation and tracking burdens, but they would also change how reported figures are interpreted. Compensation earned may be affected by the timing of vesting and option exercises, pay ratios could change because of methodology rather than pay practices, and perquisite decisions would require documented judgment. Companies can use the proposal period to test the calculations and identify where additional narrative context may be useful.

The Proposal would not affect the 2027 proxy season, and companies do not need to change their current disclosure practices. If adopted, the amendments would become effective on January 1 following publication of the final rules, with mandatory compliance beginning with the first full fiscal year ending on or after that date. In the meantime, companies can begin evaluating the potential implications for their compensation reporting and governance processes.

Part 3 of this series will cover the Proposal's proposed changes to termination benefits, equity grants, director pay, and XBRL tagging, which would reduce required disclosures without eliminating underlying oversight responsibilities.

About the Author

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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.