HR POLICY ASSOCIATION CENTER ON EXECUTIVE COMPENSATION

Executive Compensation Disclosure Reform Recommendations

About the Center On Executive Compensation

The Center On Executive Compensation, a division of the HR Policy Association, is a research and advocacy organization providing a principles-based approach to executive compensation policy. Our positions represent the views of Chief Human Resource Officers at over 350 large companies in a broad cross-section of industries.

Executive Compensation Decision-Making

Executive compensation is a critical governance matter overseen by a company's Board of Directors—specifically, its Compensation Committee - guided by three primary goals:

- **Alignment with Shareholder Interests** - Design pay structures that motivate executives to act in the best interests of shareholders and other stakeholders.
- **Drive Company Performance** - Link pay to measurable performance outcomes to encourage high achievement.
- **Attract and Retain Talent** - Ensure compensation is competitive to retain critical leadership needed for sustained success.

To fulfill its responsibilities, the Compensation Committee considers insights from internal company management - the CEO evaluates how compensation structures reflect and drive executive team performance; the CHRO provides input on talent strategy, retention risks, and succession pipeline; and the CFO offers financial analysis, including the impact on earnings and alignment with investor expectations.

Independent Compensation Consultants advise on market competitiveness, pay-for-performance alignment, and best practices for plan design. Shareholders influence pay design through say-on-pay votes, direct dialogue, and shareholder proposals.

Current Disclosure Challenges

The Compensation Discussion & Analysis (CD&A) section of the proxy, originally designed to provide transparency around executive pay decisions, has evolved into legal boilerplate and redundancy and is difficult for investors to navigate.

There are also a number of required disclosures that are costly for issuers while lacking benefit for investors. For example:

- **Pay vs. Performance:** The SEC's current rules are too prescriptive, leading to inconsistent reporting. The Compensation Actually Paid (CAP) metric is confusing and misleading. Most of the compensation included in CAP has yet to be earned or realized. Furthermore, volatile equity and pension valuations distort the link between pay and actual performance.

- **Clawbacks:** The final SEC rules on clawbacks extend well beyond what Congress intended, removing important board discretion and imposing rigid requirements.
- **Disclosure of Perquisites ("Perks"):** The current two-part test leads to inconsistent interpretations and prevents companies from focusing disclosure on genuinely investor-related benefits. Confusingly, it requires disclosure of critical security arrangements as executive pay rather than a business necessity.

The Center's Position: Support for Principles-Based Disclosure
The Center supports a flexible, narrative-driven approach to disclosure that prioritizes clarity and relevance over rigid, prescriptive requirements.

- **Streamline CD&A Content:** Focus on material, decision-useful information to improve readability and investor engagement.
- **Allow Layered Disclosure Formats:** Permit the use of hyperlinks and layered presentation to prioritize key information while maintaining access to detailed analysis.
- **Eliminate Redundant or Non-Material Disclosures:** Remove unnecessary content that does not contribute to shareholder understanding or decision-making.
- **Amend the Pay Versus Performance Rule:** Take a principles-based approach that allows companies to show the relationship between pay and performance tailored to their strategy and design.
- **Amend the Clawback Rule:** Focus the clawback rule on material accounting errors, not immaterial or technical restatements, and restore board discretion to determine whether a clawback is warranted based on shareholder value considerations.

Conclusion
As the SEC advances its reform agenda, we respectfully urge the Commission to modernize executive compensation disclosure requirements in light of nearly two decades of practical implementation and extensive stakeholder feedback. A modernized approach will enhance transparency, improve comparability, and better serve the needs of investors and issuers alike.

See our recent comments to the SEC here. For more information and to discuss these recommendations further, please contact Center CEO Ani Huang at ahuang@execcomp.org.