INFINITE EQUITY

SEC Proposes Sweeping Overhaul of Executive Compensation Disclosure

What Release No. 33-11455 would change: three new compensation tables, disclosure limited to the CEO and CFO, and a new definition of Compensation Actually Paid.

Executive summary

The SEC has proposed the most significant rewrite of executive compensation disclosure since 2006. Release No. 33-11455 would replace the current compensation disclosure framework. The highlights: three new compensation tables, limits disclosure to the CEO and CFO, and redefines Pay versus Performance "Compensation Actually Paid" (CAP) as realized pay. Comments are due 60 days after Federal Register publication.

Key changes

Area	Today	Proposed
Named executive officers	CEO, CFO + 3 most highly paid	CEO and CFO only
Compensation tables	Summary Compensation, Grants of Plan-Based Awards, Outstanding Equity Awards, Option Exercises and Stock Vested, Pension, NQDC	Earned Compensation, Granted Compensation, Status of Equity Awards (See below for more detail)
Equity award tables	Grants of Plan-Based Awards (grant values, threshold/target/maximum payouts) Outstanding Equity Awards (market value of unvested and unearned awards at year-end); Option Exercises and Stock Vested (value realized)	Grant values move to the Granted table alongside target compensation values (annualized salary, target non-equity incentives) A new Status of Equity Awards Table tracks each award from grant until fully vested, exercised or expired: grant date, award type, threshold/target/maximum shares, end of performance period, final vesting date, exercise price, shares vested, options exercised or expired. It shows share counts only, with no dollar value for unvested or unexercised awards. Earned Compensation Table incorporates the equity values previously disclosed in the Option Exercises and Stock Vested table, but with the addition of the other compensation information (salary, non-equity comp, miscellaneous)
Granted Compensation Table	Grant date fair value (PSUs using ASC 718 fair value or probable outcome)	Grant date fair value (PSUs at 100% target)
Perquisites	Disclosed at $10,000 with specific guidance on what is and is not a perquisite	Disclosed at $150,000 aggregate; with companies allowed to apply business judgment in good faith regardless of personal benefit conferred.

Key changes (continued)

Area	Today	Proposed
Personal security	Security at the executive's home or during personal travel is always a perquisite under 2006 SEC guidance, reported at incremental cost	That guidance is rescinded. Security (including required personal use of company aircraft) is not a perquisite if the company reasonably and in good faith concludes it is integrally and directly related to the executive's duties.
Pay versus Performance	Fair-value Compensation Actually Paid (CAP); TSR, peer TSR, net income, Company-Selected Measure; 5 years, All NEOs	CAP = Total Compensation Earned; cumulative TSR only; 3 years; CEO and CFO
Termination and change-in-control	Quantified payout estimates	Quantified estimates eliminated; qualitative description of material terms remains (proposed Item 402(i))
Pay ratio	All employees; median re-identified every 3 years	Full-time U.S. employees; Granted table basis; every 5 years
CD&A	Seven topics plus 15 examples	Three topics (Program Objectives, Material Elements, Say-on-Pay)
Director compensation	Prescriptive presentation requirements	Principles-based; qualitative and quantitative disclosure of material aspects retained, with certain prescriptive elements eliminated
Golden parachute table	Eight columns, all named executive officers	Four columns (Cash, Equity, Miscellaneous, Total); CEO and CFO only
XBRL tagging	Required for pay-versus-performance and clawback disclosures only	Large accelerated filers tag the three new tables in Inline XBRL (footnotes not tagged); tagging is optional for other companies, and the pay-versus-performance and clawback tagging requirements are eliminated
Other disclosures	Risk-assessment disclosure (Item 402(s)); option grant timing disclosure (Item 402(x)); clawback cover-page check boxes	All eliminated

Granted Compensation Table

Proposed form of the Granted Compensation Table, as shown in the release:

Name and Position	Year	Annualized Salary ($)	Non-Equity Awards Granted ($)	Equity Awards: Stock Awards Granted ($)	Equity Awards: Option Awards Granted ($)	Total Compensation Granted ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)
[PEO]						
[PFO]						

The Granted Compensation Table shows the pay opportunity granted in each of the last three fiscal years (two for smaller reporting companies and emerging growth companies), limited to salary, non-equity awards and equity awards. It is meant to resemble total direct compensation. It excludes perquisites and other items that appear only in the Earned table.

Column	What counts	When and how valued
Annualized Salary	Base salary	Annualized rate on the last day of the fiscal year, so year-end raises are reflected
Non-Equity Awards Granted	Annual, signing, retention and discretionary cash bonuses and non-equity incentive plan awards	Aggregate target dollar value (the 100% level for awards with multiple outcomes)
Equity Awards	All equity awards including RSUs/RSAs, Options, PSUs/PSOs	ASC 718 grant date fair value, assuming target outcomes: 100% for awards with multiple outcomes, fully earned for binary awards

Equity awards generally appear in the year of grant, though registrants may report them in the prior fiscal year in certain circumstances. A non-equity award earned in a year before its grant year is reported in the earlier year.

Status of Equity Awards Table

Proposed form of the Status of Equity Awards Table, as shown in the release:

Name and Position	Grant Date	Award Type	Grant Amount or Range (#)	End of Performance Period, If Applicable	Final Vesting Date, If Known	Exercise Price, If Applicable	Amount Vested (#)	Amount of Options Exercised / Expired (#)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
[PEO]								
[PFO]								

Columns (d) through (g) are the Equity Award Terms; columns (h) and (i) are the Equity Award Status.

The Status of Equity Awards Table revises the Outstanding Equity Awards table and borrows from Grants of Plan-Based Awards. It tracks each award, award by award, from the year it first appears in the Granted table until it is reflected as earned or fully expires, bridging the Granted and Earned tables.

Column group	What it shows
Equity Award Terms (Items 402(d)(2)(ii)–(vii))	Grant date, award type (Performance-based stock, Time-based option, etc.), threshold/target/maximum shares, end of performance period, final vesting date, exercise price.
Equity Award Status (Items 402(d)(2)(viii)–(ix))	Shares vested, options exercised or expired

It covers equity awards only, reports share counts rather than dollar values, and does not require annual revaluation.

Earned Compensation Table

Proposed form of the Earned Compensation Table, as shown in the release:

Name and Position	Year	Salary Earned ($)	Non-Equity Awards Earned ($)	Equity Awards: Stock Awards Vested ($)	Equity Awards: Option Awards Exercised ($)	Miscellaneous Compensation Received ($)	Total Compensation Earned ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
[PEO]							
[PFO]							

The Earned Compensation Table reports compensation earned in each covered fiscal year, including the value realized on equity awards granted in prior years. It has five columns (Items 402(b)(2)(iii)–(vii)): Salary Earned, Non-Equity Awards Earned, Stock Awards Vested, Option Awards Exercised and Miscellaneous Compensation Received.

Equity counts only when it is realized, at vesting or exercise. Perquisites appear in Miscellaneous Compensation Received once they exceed $150,000 in aggregate per executive. The separate Pension Benefits and Nonqualified Deferred Compensation tables are eliminated. The five columns sum to Total Compensation Earned, which is covered next.

Pay-Versus-Performance Changes

CAP transitions from equity revaluations to Total Compensation Earned, which is the sum of five columns in the new Earned Compensation Table. Equity counts only when realized, so no interim fair-value remeasurements are required.

Column	What counts	When and how valued
Salary Earned	Base salary, including salary taken in stock	Year earned
Non-Equity Awards Earned	Annual and ad hoc cash bonuses (including signing and retention bonuses), non-equity incentive plan awards, and earnings on those awards	When earned, even if paid later (including a single year's amount under a multi-year award)
Stock Awards Vested	RSUs, restricted stock, PSUs from any grant year ignoring deferrals	Shares × closing price on the vesting date
Option Awards Exercised	Options from any grant year	Spread on the exercise date
Miscellaneous Compensation Received	Perquisites over $150,000 in aggregate, tax gross-ups, option exercise costs paid by the company, severance and change-in-control amounts, company 401(k) and NQDC contributions, pension service and prior service cost, life insurance premiums, dividends on equity awards, and any other compensation the company deems material	Year earned or received

To provide an example of what the baseline proposed Pay versus Performance disclosure could look like, we envision the table below, although the same information could be shown in a graph or plain narrative:

Year	Compensation Actually Earned (=CAP)		Value of $100 invested (cumulative TSR)
	CEO	CFO	
2027	—	—	—
2026	—	—	—
2025	—	—	—

The SEC has noted that an alternative analysis could be a more fully principles-based pay-versus-performance, under which registrants provide a clear description of pay and performance without an official prescribed measure of compensation or performance. This is open to comment and we expect such analysis may make its way into the disclosures regardless of explicit requirement.

CD&A changes

Proposed Item 402(e) would require the CD&A to address three topics, down from seven today. It would also eliminate the non-exhaustive list of 15 example topics and streamline the instructions. Smaller reporting companies and emerging growth companies would remain exempt. Individuals a company voluntarily discloses beyond the CEO and CFO would not be named executive officers for CD&A purposes.

The three required topics are:

- The objectives of the compensation program in relation to corporate strategy.
- The material elements of compensation and how those amounts are determined.
- If applicable, whether and how the company considered the most recent say-on-pay vote in setting compensation policies and decisions.

Current topics	Proposed topics
Objectives of the compensation program	Objectives of the compensation program in relation to corporate strategy
What the program is designed to reward	Material elements of compensation and how those amounts are determined
Each element of compensation	If applicable, whether the most recent say-on-pay vote was considered and how it affected compensation policies and decisions
Why the company pays each element	
How the amount (and any formula) for each element is determined	
How each element fits the overall objectives and affects other elements	
Whether and how the most recent shareholder advisory vote was considered	

Notably, the SEC specifically calls out that a registrant need not communicate the peer group used in benchmarking executive compensation (pp. 378-379), citing that many investors have access to third party analyses. We'd expect most companies will continue to do so given the importance of defensibly communicating how compensation is determined.

Pay ratio changes

The proposal narrows who is counted, changes the pay measure and cuts how often the median employee must be re-identified.

Area	Today	Proposed
Employee population	All employees	Full-time employees in the United States, excluding seasonal and temporary employees
Pay measure	Summary Compensation Table	Granted Compensation Table, for the CEO and the median employee
Median employee re-identified	Every 3 years	Every 5 years
Methodology guidance	Detailed instructions on adjustments, estimates, sampling and acquisitions	Streamlined rule text and simplified guidance on identifying the median employee

Termination and change-in-control payments

Proposed Item 402(i) replaces the quantified payout estimates with a description of the material terms of each arrangement, written or unwritten. Today the rule requires estimates for a range of hypothetical termination and change-in-control scenarios, assuming each trigger happened on the last business day of the fiscal year. Companies often present them in several complex tables the rule does not prescribe. The SEC does not think those estimates are material when the terms are already described.

Area	Today	Proposed
Quantitative disclosure	Estimated payments and benefits for each scenario	Eliminated
Qualitative disclosure	Prescriptive list: triggers, payment types, how amounts are set, conditions such as non-competes	Material terms only
Executives covered	Named executive officers	Anyone who served as CEO or CFO during the last fiscal year
Change in responsibilities	Separate trigger	Treated as an example of constructive termination
Broad-based plans	May be excluded if available to all salaried employees without favoring executives	Same exclusion retained

Issues to watch

Options include gains after vesting. Valuing options at exercise counts appreciation from the executive's decision to keep holding, while vested shares stop at the vesting date. The executive also controls when the pay is reported. The SEC asks in Question 12 whether options should instead be valued at intrinsic or fair value when they vest.

Granted values assume target outcomes. The Granted Compensation Table uses ASC 718 grant date fair value but assumes target outcomes instead of probable outcomes, so amounts can differ from the financial statements, especially for awards with market conditions or targets unlikely to be met. Material differences would need supplemental disclosure under proposed Item 402(a)(5). What counts as material, and how to handle modifications of performance awards, remains unclear.

Revised calculation of Compensation Actually Paid. CAP would equal Total Compensation Earned. Stock awards would count only in the year they vest and options only in the year they are exercised, valued on that date. The current method's year-over-year remeasurement of unvested and outstanding awards goes away. As a result, one year's CAP picks up the change in an award's value over its full vesting period, often several years, while the TSR comparison for that year reflects only one year of stock movement. The SEC acknowledges this can "create spikes in pay during vesting years" (fn. 281) and points to the Status of Equity Awards Table for context.

Lack of Reconciliation of Status of Equity Awards Table. Many stakeholders expressed frustration about the challenge of tracking equity awards during their lifecycle. The proposed Status of Equity Awards Table only shows the outstanding equity at a point in time, rather than reconciling all activity that occurred throughout the year.

No dollar values in the Status of Equity Awards Table. The table reports unvested and unexercised awards as share counts only. On page 76, the SEC says the year-end market values required today in the Outstanding Equity Awards table are hypothetical, because awards may not vest, may vest at a different level, or may vest at a different stock price. It adds that dropping them removes the need for award-by-award revaluations each year.

Issues to watch (continued)

Removal of peer TSR. The proposal would drop peer group TSR from pay-versus-performance disclosure, on the view that investors can build peer TSR from market data (pp. 139, 144–145). This goes in tandem with the proposal to remove the Item 201(e) stock performance graph which also included peer TSR measurements. Without peer TSR disclosure, investors lose the company's own view of which peers it measures performance against. Compensation peers disclosed in the CD&A are an imperfect substitute, since many companies use different peer sets to benchmark pay and to measure performance. Those may also disappear: the proposal drops peer-group benchmarking from the CD&A topics, and the SEC acknowledges retail and smaller investors may lose access to peer group information (pp. 378–379). Question 67 asks whether peer TSR should be retained.

Disclosure of Compensation Peers. Companies would no longer be required to name the peer companies they use to benchmark pay. Today that disclosure comes from CD&A example topic (xiv), which asks companies to identify any benchmark and its component companies; the proposal drops the entire example list (pp. 112–113). Even so, it is hard to imagine companies not disclosing their compensation peers in some way. Where peer benchmarking sets pay levels, it is part of "how amounts are determined," one of the three required CD&A topics, and proxy advisors and institutional investors rely on peer lists to judge pay levels at say-on-pay time.

Cash and equity are timed differently. A three-year cash award ending in 2026 counts in 2026. A matching PSU certified in February 2027 counts in 2027, at the 2027 stock price. Question 11 asks whether the rule needs more guidance on when a non-equity award is "earned."

Timing

If adopted, the rules would take effect on the January 1 after the final rule is published, and apply to the first full fiscal year ending on or after that date. A rule published in 2027 would take effect January 1, 2028, so calendar-year companies would first comply in their 2029 proxy statements. Companies could adopt early, any time after the effective date of the adopted rules, if they provide disclosure responsive to the amended item in its entirety.

What to do now

If you have questions, reach out to your Infinite Equity team. Infinite Equity can model comparisons of both the current and the proposed tables to help with future disclosure planning. Follow Infinite Equity on LinkedIn for more updates on this and other topics related to Executive Compensation Disclosure Reform.

Sources

- SEC Release No. 33-11455, Executive Compensation Disclosure Reform

ABOUT INFINITE EQUITY

Founded in 2019, Infinite Equity is a leader in its field, providing professional advice and technology-enabled solutions that allow businesses to create and support a prosperous ownership culture. Infinite Equity is known for its success in assisting companies to increase the effectiveness and return of their equity programs, believing that equity compensation drives performance and fuels success. To learn more about Infinite Equity's employee ownership solutions, visit infiniteequity.com.