

SEC Staff Issues Guidance on Valuing and Disclosing Spring-Loaded Compensation Awards

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The SEC recently released guidance in Staff Accounting Bulletin No. 120 (the "**Guidance**") regarding the recognition and disclosure of compensation costs for "spring-loaded" awards granted to executives. Spring-loaded awards are equity-based compensation arrangements granted by a company shortly before the company announces market-moving information ("**Material Non-Public Information**"), such as an earnings release with better-than-expected results or the disclosure of a significant transaction. According to the Guidance, when these grants are not routine, SEC staff believes companies should take into account the impact of such Material Non-Public Information when measuring the value of such spring-loaded awards. In particular, SEC staff believes the measured value of spring-loaded compensation may need to be adjusted when companies grant such awards while in possession of positive Material Non-Public Information. Notably, SEC staff advises that, "companies should not grant spring-loaded awards under any mistaken belief that they do not have to reflect any of the additional value conveyed to the recipients from the anticipated announcement of material information when recognizing compensation cost for the awards." Thus, when granting spring-loaded awards and recognizing and disclosing compensation costs, to determine the fair value of the compensation, companies should take into account, in accordance with the Guidance, the value of any Material Non-Public Information, especially when such Material Non-Public Information may result in material increases in the company's share price.

In light of this new guidance, companies should review their equity granting procedures and practices and consider implementing procedures for non-routine grants that would help minimize the risk that awards could be deemed to be spring-loaded.

The Guidance is available [here](#).

The SEC's press release for the Guidance is available [here](#).