SEC's Executive Compensation Overhaul Takes Shape

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Earlier this year, the Securities and Exchange Commission ("***SEC***") proposed significant revisions to the executive compensation disclosure requirements in Item 402 of Regulation S-K. Building on that effort, the SEC has now released a comprehensive reform of Item 402. These amendments are proposals only and have not been adopted. Until the SEC issues final rules, the existing Item 402 requirements remain in full effect, and any final rules may differ materially from the proposal.

Key Proposed Changes

- **Fewer NEOs.** Named executive officers would be limited to the PEO and PFO. In most cases, that means two individuals instead of the current five or more.
- **New tables.** Three tables (Earned Compensation, Granted Compensation, and Status of Equity Awards) would replace the four primary tables required today.
- **Perquisites.** The reporting threshold would rise from $10,000 to $150,000, and a new de minimis tracking exclusion would be added. Companies would also have more flexibility to decide what counts as a perk, as long as the determination is reasonable and made in good faith.
- **Leaner CD&A.** The CD&A would need to address only three topics, and the current list of 15 example topics would be eliminated.
- **Simpler pay-versus-performance.** Fewer performance measures would be required, and "Compensation Actually Paid" would be replaced with total earned compensation.
- **Pay ratio relief.** The median employee would be identified from U.S. full-time employees only, and only every five years.
- **Clawback cleanup.** The cover-page check boxes and certain redundant clawback disclosures would be eliminated.

We will continue to monitor these rules and provide an update if final rules are released.

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