



SEC Votes to Propose Changes to Disclosure Requirements Concerning Executive Compensation and Related Matters

FOR IMMEDIATE RELEASE 2006-10

Washington, D.C., Jan. 17, 2006 — The Securities and Exchange Commission today voted to publish for comment proposed rules that would amend disclosure requirements for executive and director compensation, related party transactions, director independence and other corporate governance matters, and security ownership of officers and directors. The proposed rules would affect disclosure in proxy statements, annual reports and registration statements. The proposals would require most of this disclosure to be provided in plain English. The proposals also would modify the current reporting requirements of Form 8-K regarding compensation arrangements.

1. Executive and Director Compensation

The proposals would refine the currently required tabular disclosure and combine it with improved narrative disclosure to elicit clearer and more complete disclosure of compensation of the principal executive officer, principal financial officer, the three other highest paid executive officers and the directors.

New company disclosure in the form of a Compensation Discussion and Analysis would address the objectives and implementation of executive compensation programs - focusing on the most important factors underlying each company's compensation policies and decisions.

Following this new section, executive compensation disclosure would be organized into three broad categories: compensation over the last three years; holdings of outstanding equity-related interests received as compensation that are the source of future gains; and Retirement plans and other post-employment payments and benefits.

- A reorganized Summary Compensation Table would be the principal vehicle for showing three-year compensation and would include additional information.
 - A new column would report total compensation.
 - A dollar value will be shown for all stock-based awards, including stock and stock options, measured at grant date fair value, computed pursuant to Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 123

(revised 2004), Share-Based Payment, to provide a more complete picture of compensation and facilitate reporting total compensation.

- The "All Other Compensation" column would include the aggregate increase in actuarial value of pension plans accrued during the year and all earnings on deferred compensation that is not tax-qualified.
- The threshold for disclosing perquisites would be reduced to \$10,000 and interpretive guidance is provided for determining what is a perquisite.
- Two supplemental tables would report Grants of Performance-Based Awards and Grants of All Other Equity Awards.
- Disclosure regarding outstanding equity interests would include
 - the Outstanding Equity Awards at Fiscal Year-End Table, which would show outstanding awards representing potential amounts that may be received in the future; and
 - the Option Exercises and Stock Vested Table, which would show amounts realized on equity compensation during the last year.
- Retirement plan and post-employment disclosure would include
 - the Retirement Plan Potential Annual Payments and Benefits Table, which would disclose annual benefits payable to each named executive officer;
 - the Nonqualified Defined Contribution and Other Deferred Compensation Plans Table, which would disclose year-end balance, and executive contributions, company contributions, earnings and withdrawals for the year; and
 - disclosure of payments and benefits (including perquisites) payable on termination or change in control, including quantification of these potential payments and benefits.

A Director Compensation Table, similar to the Summary Compensation Table, and related narrative would disclose director compensation for the last year.

2. Related Person Transactions, Director Independence and Other Corporate Governance Matters

The proposals would update, clarify, and slightly expand the disclosure provisions regarding related person transactions. Principal changes would include a disclosure requirement regarding policies and procedures for approving related party transactions, a slight expansion of the categories of related persons and a change in the threshold for disclosure from \$60,000 to \$120,000. The requirement to disclose these transactions would also be made more principles-based, and would require disclosure if the company is

a participant in a transaction in which a related person has a direct or indirect material interest.

A proposed new item (Item 407 of Regulations S-K and S-B) would require

- disclosure of whether each director and director nominee is independent;
- a description of any relationships not otherwise disclosed that were considered when determining whether each director and director nominee is independent; and
- disclosure of any audit, nominating and compensation committee members who are not independent.

Proposed Item 407 also would consolidate corporate governance related disclosure requirements currently set forth in a number of places in the proxy rules and Regulations S-K or S-B. This would include disclosure regarding board meetings and committees, and specific disclosure about nominating and audit committees. Proposed Item 407 would also require similar disclosure regarding compensation committees and a narrative description of their procedures for determining executive and director compensation.

3. Security Ownership of Officers and Directors

The proposals would require disclosure of the number of shares pledged by management.

4. Form 8-K

The proposals would modify the disclosure requirements in Form 8-K to capture some employment arrangements and material amendments thereto only for named executive officers. The proposals would also consolidate all Form 8-K disclosure regarding employment arrangements under a single item.

5. Plain English Disclosure

The proposals would require companies to prepare most of this information using plain English principles in organization, language and design.

Comments on the proposed rules should be received by the Commission within 60 days of publication in the Federal Register.

The full text of the detailed release concerning these items will be posted to the SEC Web site as soon as possible.

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▶ Additional materials: [Chairman Cox Opening Statement](#)

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