



Executive Compensation

Early Adopters of CD&As Presenting Longer, Detailed Disclosure, Analysts Find

Early adopters of the Securities and Exchange Commission's disclosure rules are filing longer, more comprehensive statements, many exceeding 20 pages in length, according to the compensation research firm Equilar Inc.

Equilar senior analyst Alexander Cwirko-Godycki told BNA on Feb. 22 that, as expected, “the size and quality of disclosure is significantly bigger and better than previous proxy disclosure.”

Examples of Compensation Discussion and Analysis (CD&A) statements by early adopters include Merck & Co.'s statement of its compensation philosophy in which it itemizes Merck's compensation program objectives and rewards against a backdrop of its business environment, mission, and values. Another early adopter in the Equilar sample discusses the components of its executive compensation program by providing a table that sets out the pay element, the reward, and the purpose of the pay element.

A number of Equilar's sample companies used tables to enhance their CD&A's narrative discussion of peer groups, annual incentive programs, internal pay equity, and stock ownership guidelines.

McDermott International Inc. provides a lengthy table in its CD&A showing potential payments upon termination or change in control. Each named executive officer's payment upon termination under various scenarios is charted in the table. Cwirko-Godycki noted that because of the complexity of termination and change in control disclosures, the SEC gave companies flexibility in how to present the information. As a result, he said, “we are seeing a lot of tables” as companies try to present a great deal of information and still meet the plain English standard. Although he has seen examples of narrative disclosure for termination and change of control payments, Cwirko-Godycki said “tables highlight all the different scenarios that really exist.” As an example of a narrative presentation, he cited the disclosure of Baker-Hughes in its preliminary proxy statement filed in January.

Compensation Recovery Policies.

Information relating to company policies relating to compensation recovery policies frequently was not readily available. However, Cwirko-Godycki said this information now is being presented in the CD&A, shedding light on clawbacks and other recovery policies as companies will put this information into their CD&As with more regularity.

Equilar produced its *CD&A Overview--An examples-based review of key CD&A elements from early adopters*, based on filings with the SEC available through the agency's EDGAR Web site. The California-based benchmarking and research firm said the examples provided “should not be viewed as a precise model for CD&A disclosure,” but instead should provide some insight into important disclosure elements. These early CD&As “represent[] a significant step forward in the comprehensiveness of disclosure,” it said.

By Mary Hughes

The February 2007 Client Alert from Equilar Inc. is available at <http://www.equilar.com>.

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