

New era of full disclosure?

By Steve Hendershot
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The money's all there now. Whether you can find it is another question.

Last August, the Securities and Exchange Commission adopted new rules that starting this year require public companies to reveal more about how they pay their top executives.

Full details of executives' retirement benefits, severance packages and stock option compensation — the last dark corners where CEOs could receive millions without shareholders knowing — must now be disclosed on companies' proxy statements.

THE CATCH

Boards must also explain the rationale behind their pay plans in a new section called "compensation discussion and analysis." And to the far right of the proxy's summary compensation table, there's a new column called "total compensation" that includes all the pay — salary, bonuses, perks, options, you name it — for each of the company's top executives.

But, of course, there's a catch.

"The unintended consequence is the proxies have gotten long and complex with all the new information," says Mark Reilly, a partner at 3C, the Compensation Consulting Consortium, in Chicago. "That's an advantage from an executive's standpoint, because it's difficult to challenge inappropriate programs if the programs are difficult to follow and understand."

And the magic "total compensation" number? Well, it's not as simple as you'd think.

There are several ways to look at compensation. One is from the SEC's perspective, which includes salary, amortized stock and option awards, retirement, performance-based bonuses and other perks. That's the "total compensation" number listed in the summary compensation table of the proxy.

Then there's the take-home pay perspective. How much did the executive receive this year in pay, vested stock and exercised option awards? Each perspective yields a different number.

Take the compensation of Allstate Corp. CEO Edward Liddy.

The summary compensation table of Allstate's proxy says Mr. Liddy earned nearly \$24 million in 2006: \$1.2 million in salary, \$5 million in stock awards, \$7.2 million in option awards, \$5.3 million in performance-based bonuses, \$5.1 million in retirement compensation and \$100,000 in other compensation such as perks.

What Mr. Liddy actually took home in 2006: \$23.1 million.

That's calculated by subtracting the retirement funds set aside by Allstate on Mr. Liddy's behalf, using the incentive-plan bonus amounts from the summary compensation table, and stock and

option amounts gathered from a third table, which covers "option exercises and stock vested at fiscal yearend 2006."

So, the money's all there, but it's still difficult to figure out exactly how much a CEO is making.

The new disclosure rules also include the compensation discussion and analysis section, a narrative of the board's rationale behind an executive's pay, which replaces the compensation committee report. For the first time, stockholders can see the formulas that boards use to calculate executive bonuses.

"It makes the whole calculation of bonuses less of a black box for investors," says Alexander Cwirko-Godycki, senior analyst at Equilar Inc., an executive compensation research firm in San Mateo, Calif. "Companies aren't just listing the performance measures they're using, but explaining how they chose them. It gives people a clearer idea of how the board is thinking."

RETIREMENT PLANS

And then there are the retirement and severance packages, now listed for the first time as actual figures rather than complicated formulas. They are distilled in a column of the summary compensation table covering the "change in pension value and non-qualified deferred compensation earnings." With those numbers in plain view, investors can see how much the board has promised a CEO when he or she leaves. Such packages have led to increasing shareholder outrage in recent years, especially when the company stock fell during the CEO's tenure.

"Part of the reason those packages grew is they weren't disclosed fully, so companies were able to do things with retirement benefits and severance agreements that don't stand up to common sense," 3C's Mr. Reilly says. "They probably grew more rapidly than if they had been exposed to the light of day, and now they will probably start to level off or decline."