



What's in Your Wallet?

Executive-retirement and change-in-control packages may be scaled back as their full weight is realized under the SEC's compensation-disclosure proposal, says one observer.

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In the next few months, the Securities and Exchange Commission will finalize new rules about what companies must reveal about executive pay. If the SEC hews to its January proposal, companies will have to add both more numbers and prose to their proxies starting in 2007. CFOs will have no secrets: their compensation, as well as that of their CEOs, will have to be disclosed regardless of its value relative to other executives' pay.

The 370-page proposal calls for precise dollar values on executive perks, retirement benefits, and severance packages; a tally of total compensation for each executive that includes the grant-date value of stock options and pension gains; and a discussion and analysis section in lieu of the current compensation-committee report.

The new rules will force the disclosure of items that previously had to be calculated, such as pension benefits, severance, and change-in-control packages. For example, while most companies now disclose how many times annual salary an executive is due upon departure, in the past "you weren't exactly sure what was being multiplied, in terms of salary and bonus," says Tim Ranzetta, president and chief operating officer of San Mateo, Calif.-based compensation-research firm Equilar Inc. "You also [weren't told] the value of the perks, like office space or secretarial help," he adds.

One of the more controversial aspects of the proposal is the inclusion of grant-date values for stock options and restricted stock — which may never be realized — in total compensation. "You [could be] creating a lot of estimates that are very misleading," says Steve Gomo, CFO of San Jose, Calif.-based Network Appliance Inc.

Whether shining such a bright light on compensation will prompt wholesale changes remains to be seen. "Enhanced disclosure rules are going to put more pressure on compensation committees to rationalize and justify their choices, but I don't think they're going to change the way people get paid," says Andy Goldstein of Watson Wyatt Worldwide. Still, executive-retirement and change-in-control packages may be scaled back as their full weight is realized, he says. Perks such as company cars and dry-cleaning expenses are also likely to go, or be converted into cash because "they raise eyebrows, even if they're not worth that much," says Jill Kanin-Lovers, a compensation-committee member for Heidrick & Struggles Inc., Alpharma Inc., and Dot Foods Inc.

Investor advocates are already pushing for the rules to go further. The Council of Institutional Investors (CII), for example, wants companies to disclose the goals executives must achieve to receive performance-based awards. "Unless investors can see where compensation committees are setting those hurdles, it's hard for us to assess the quality of those plans," says CII deputy director Ted White. Others want companies to disclose the ratio of the CEO's pay to that of the average worker's. Currently the average is 475:1.

So far, companies don't seem too concerned about the new disclosures. "I'm not worried about it at all," says Network Appliance's Gomo. Ditto for Heidrick & Struggles, which has not previously disclosed CFO Eileen Kamerick's salary. Says Kanin-Lovers, "Our CFO is great, so I think we'll be very proud to disclose what we're paying her."

Gap Analysis

CFO and CEO pay compared.

		Median Total Direct Compensation*
2005	CFO	\$2,553,238

	CEO	\$7,381,471
2004	CFO	\$2,416,104
	CEO	\$7,131,164
2003	CFO	\$2,184,035
	CEO	\$7,119,129

* Executives in place for
past 3 consecutive years

Source: Equilar Inc.