A CHANGE IS GONNA COME: SEC PROPOSES MAJOR OVERHAUL OF EXECUTIVE AND DIRECTOR PAY DISCLOSURE

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US Corporate Alert

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On 13 November 2026, in a release running more than 540 pages, the US Securities and Exchange Commission (the SEC) proposed the biggest rewrite of the executive and director pay disclosure rules in Item 402 of Regulation S-K in two decades.[1]

The proposal is a welcome reset. The current disclosure rules have grown steadily more complex and burdensome, and they demand a disproportionate amount of time and attention for many companies.

If adopted, the rules would make pay disclosure significantly simpler and less burdensome for companies and their in-house teams, with the SEC estimating average annual compliance cost savings of about US$244,000 per company.

For now, though, the rules remain a proposal, and companies should prepare their 2027 proxy statements under the existing requirements. If the SEC adopts final rules in 2027, they would take effect on 1 January 2028. Calendar-year companies could then adopt the new framework voluntarily in their 2028 proxy statements, with compliance becoming mandatory in their 2029 proxy statements.

If adopted, the proposal would, as described in further detail below:

- Replace today's prescriptive requirements with a more principles-based framework focused on material information;
- Narrow the covered executives to the principal executive officer (the PEO) and principal financial officer (the PFO);
- Replace the Summary Compensation Table and its companion tables with three new tables covering pay earned, pay granted, and the status of equity awards;
- Significantly simplify and streamline the perquisite, the Compensation Discussion and Analysis (the CD&A), pay versus performance, clawback, pay ratio, severance and change in control, golden parachute, and director pay disclosures; and
- Eliminate the compensation risk and option grant timing disclosures altogether.

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PERSONS COVERED

Today, companies generally (other than smaller reporting companies (SRCs) and emerging growth companies (EGCs)) must disclose compensation for the PEO, the PFO, and the three other most highly compensated executive officers, a group that must be determined each year through a compensation ranking. This typically results in five named executive officers, although the number can increase when a PEO or PFO changes mid-year or a highly compensated officer departs before year-end. The proposal would limit the group to those who served as PEO or PFO during the year, so most companies would report on only two executives, and the annual ranking would be eliminated. Companies could still include additional executives voluntarily, but they would be required to present them in full in all three new tables described below.

CORE EXECUTIVE COMPENSATION TABLES

Today, companies must provide six compensation tables, led by the Summary Compensation Table, along with numerous prescribed footnotes. The proposal would replace all six with three: one for compensation earned, one for compensation granted, and one tracking the status of equity awards. The earned and granted tables would cover three years (two for SRCs and EGCs), and the prescribed footnotes would give way to a principles-based requirement to disclose any material information needed to understand the tables, in any format. Prior years would need to be recast in the first year of compliance, although the SEC has asked whether to phase this in.

PERQUISITES

Today, perquisites must be disclosed once they total US$10,000, and SEC guidance defines the term broadly, treating items such as residential and personal travel security as perquisites regardless of their business purpose. The proposal would raise the disclosure threshold to US$150,000 per executive and exclude de minimis fringe benefits, such as occasional gifts, from the calculation altogether. Most significantly, the determination of whether an item is a perquisite would rest largely with the company's reasonable, good-faith judgment, including for items such as round-the-clock security or the required use of company aircraft for security reasons.

COMPENSATION DISCUSSION AND ANALYSIS

Today, the CD&A must address seven required topics, supplemented by a list of 15 examples that are material only where the facts warrant but that, in practice, companies have largely treated as required. The proposal would reduce the required topics to three and eliminate the 15 examples.

PAY VERSUS PERFORMANCE

Today, pay versus performance disclosure is highly complex. Companies must calculate “compensation actually paid” for the PEO and, on average, the other named executive officers, a measure that requires extensive calculations tracking changes in equity award values, and then compare it over five years with company and peer-group total shareholder return (TSR), net income and a “company-selected measure”. The proposal would substitute a far simpler measure of “compensation actually paid” and confine the disclosure to three years, the

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PEO and PFO, and company TSR alone, eliminating the comparisons with peer-group TSR, net income, and a "company-selected measure."

PAY RATIO

Today, the PEO pay ratio compares the PEO's pay with that of a median employee drawn from the company's entire global workforce, including part-time, seasonal and temporary workers, and that employee must be re-identified at least every three years. The proposal would draw the median employee only from full-time US employees and require re-identification only every five years.

TERMINATIONS AND CHANGES IN CONTROL

Today, companies must describe and quantify what each named executive officer would receive under hypothetical termination and change in control scenarios, assuming the event occurred on the last day of the year. The proposal would eliminate the dollar estimates and require only a description of the material terms of the PEO's and PFO's arrangements, as SRCs and EGCs provide today. Even that description could be omitted if the terms were already disclosed in a Form 8-K.

GOLDEN PARACHUTE TABLE

Today, merger proxies must include a "golden parachute" table covering every named executive officer, with eight columns and mandatory footnotes. The proposal would keep the table but condense it to five columns, replace the footnotes with a materiality standard and limit coverage to the PEO and PFO.

CLAWBACKS

Today, clawback disclosure includes two check boxes on the annual report cover page, an explanation whenever a restatement did not require recovery, and person-by-person detail when recovery is impracticable. The proposal would remove the check boxes and the explanation and would require impracticable amounts to be shown only in total. Disclosure would still be required when recovery is triggered, and the underlying clawback rules would not change, so policies would continue to cover all executive officers.

DIRECTOR COMPENSATION

Today, companies must present director compensation in a prescribed table that reports equity awards at grant value. The proposal would eliminate the required table and permit companies to present director compensation in the format they consider appropriate. For each director, companies would report the cash earned and the value realized upon the vesting or exercise of equity awards, a departure from the current grant value approach, and would also disclose the key terms of each outstanding award.

COMPENSATION RISK ASSESSMENT AND OPTION GRANT TIMING

Today, companies must discuss compensation-related risk under Item 402(s) and disclose option grants made close to the release of material nonpublic information under Item 402(x). The proposal would eliminate both

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requirements. Material compensation-related risks would still need to be addressed through risk factor and Management's Discussion and Analysis disclosure.

CONCLUSION

As noted above, the proposed amendments are a welcome development and, if adopted, would substantially reduce the burden, complexity, and cost of executive and director compensation disclosure. They remain only a proposal, however, and the final rules may differ from those the SEC has put forward. We will continue to monitor developments and keep our clients informed, and we encourage you to contact your lawyers at the firm with any questions.

FOOTNOTES

[1] Release No. 33-11455 (https://www.sec.gov/files/rules/proposed/2026/33-11455.pdf).

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