SEC Proposes Simplification and Reform of Executive Compensation Disclosure Rules

On November 13, 2026, the U.S. Securities and Exchange Commission (the "SEC" or the "Commission") proposed long-awaited amendments to the executive and director compensation disclosure rules under Item 402 of Regulation S-K (the "Proposed Rules").[1] The Proposed Rules reflect feedback solicited in connection with the Commission's 2025 Executive Compensation Roundtable and related requests for comment, including important feedback we provided as part of this comment process.[2] The Proposed Rules are designed to make executive and director compensation disclosures more principles-based, reduce compliance burdens and focus disclosure on information material to investors. Comments are due by January 19, 2027.

QUICK TAKEAWAYS

- *Two (vs. Five or More) Named Executive Officers (NEOs).* Disclosure under the Proposed Rules would cover only the principal executive officer (PEO) and principal financial officer (PFO), down from the current five or more for most companies. This would have the knock-on effect of reducing the number of compensation-related Forms 8-K and the number of compensation exhibits to quarterly and annual filings.
- *New Compensation Tables and Elimination of Others.* The all-important Summary Compensation Table and three related tables would be replaced by Earned Compensation, Granted Compensation and Status of Equity Awards tables. Pension, Deferred Compensation and Termination Scenario tables would be entirely eliminated.
- *Shorter CD&A Section.* The Compensation Discussion and Analysis section ("CD&A" section) of proxy statements would become shorter and more streamlined with the elimination of certain currently required disclosure topics.
- *Perquisites.* The perquisite reporting threshold would be raised from $10,000 to $150,000, and revised Commission guidance would give companies flexibility to conclude that certain items (such as executive security) are not perquisites.
- *Changes to Pay vs. Performance and Pay Ratio Disclosures.* Pay-versus-performance would drop the bespoke "Compensation Actually Paid" metric in favor of "Total Compensation Earned" and would now cover three (vs. five) years of compensation; company Total Shareholder Return ("TSR") would be the required performance metric; and pay ratio disclosure would be based on a comparison to full-time U.S. employees only.

- *Important Timing Relief for Registration Statements.* Current rules require updated prior-year compensation information for registration statements filed at the very beginning of the fiscal year, which is difficult to accomplish in practice. The Proposed Rules would provide a grace period of up to 120 days after fiscal year-end before prior-year information is required.
- *Timing.* New rules would be effective on January 1 of the year following publication of the final rules. Compliance would be required with respect to compensation information for the first full fiscal year ending on or after the effective date with voluntary early compliance permitted. Companies should expect to continue to comply with current rules for the upcoming 2027 proxy season. Depending on adoption timeline, mandatory compliance may not be required until 2029.

BACKGROUND

Current Item 402 of Regulation S-K is primarily the product of a 2006 disclosure expansion (which required a CD&A section) and a series of rules mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, including say-on-pay and golden parachute disclosure (2011), pay ratio (2015), pay-versus-performance (2022) and clawback rules (2022). As is clear from this chronology, the current disclosure regime represents a layer cake of rules that do not always produce useful information for investors and are costly to produce. The Commission has set out to rationalize and simplify these rules.

Tabular Summary of Important Changes

Disclosure Item	Current Rule	Proposed Rule
Named executive officers (NEOs)	PEO, PFO, three other most highly compensated executive officers and up to two former executive officers	PEO and PFO only (including all interim and co-PEOs/PFOs)
Primary compensation tables	Summary Compensation, Grants of Plan-Based Awards, Outstanding Equity Awards, Option Exercises/Stock Vested, Pension Benefit and Deferred Compensation Tables	Earned Compensation, Granted Compensation and Status of Equity Awards Tables
Perquisites	Reported if $10,000 or more; valued at aggregate incremental cost; narrow "integrally and directly related" test	Reported if $150,000 or more; *de minimis* fringe benefits excluded; flexible valuation; good-faith company determination
CD&A	Seven required topics and 15 example topics	Three required topics
Termination and change-in-control	Quantification required	Narrative description only
Director compensation	Prescribed Director Compensation Table; equity reported at grant-date fair value	Program description; flexible format; equity valued when vested or exercised
Pay-versus-performance	Compensation Actually Paid; five years; TSR, peer TSR, net income, Company-Selected Measure and Tabular List	Total Compensation Earned; three years; company TSR only; PEO and PFO only
Pay ratio	All worldwide full-time, part-time, seasonal and temporary employees; median employee every three years	Full-time U.S. employees only; Granted Compensation Table methodology; every five years
Compensation risk (Item 402(s))	Narrative disclosure required	Eliminated
Option grant timing (Item 402(x))	Narrative and tabular disclosure required	Eliminated
Registration statements	Item 402 for last fiscal year required at filing of long-form registration statements	Up to 120 days after fiscal year-end to update compensation information
Golden parachute table	Seven columns with mandatory footnotes	Four columns (Cash, Equity, Miscellaneous, Total)

DISCUSSION OF PROPOSED CHANGES

Narrowing the NEO Definition and Knock-On Effects

Under current Item 402 of Regulation S-K, NEOs generally include the principal executive officer (PEO), the principal financial officer (PFO), the three most highly compensated other executive officers serving at fiscal year-end and up to two additional individuals who would have been included but for not serving at year-end.[3] Under the Proposed Rules, NEOs for all registrants would consist only of individuals who served as PEO or PFO, or acted in a similar capacity, during the last completed fiscal year. Where a company had multiple PEOs or PFOs during the year, including interim, acting or co-PEOs, each would still be considered an NEO. The Commission explains that it proposed requiring compensation disclosure only for the PEO and PFO because of their central roles in managing the company and in certifying its financial reports under the Sarbanes-Oxley Act, noting that compensation information for these individuals is most likely to be material to investors. It also cited surveys estimating that limiting disclosure to these two officers could significantly reduce disclosure preparation time.

A company could voluntarily provide tabular disclosure for additional executives, so long as it provides all required information for each additional person (*i.e.*, once a company adds an individual, it must fully comply with the tabular disclosure for the additional individual(s)). Those individuals, however, would not become NEOs for other purposes, such as the CD&A, pay-versus-performance or Form 8-K. The narrower NEO definition would affect several other requirements tied to NEO status:

- Form 8-K Item 5.02 reporting of departures and of material compensatory plans, contracts and arrangements would be triggered for fewer executives;
- Individual beneficial ownership disclosure under Item 403(b) would now be required for fewer executives, although group disclosure for directors and "executive officers" would continue to apply;
- Fewer compensation exhibits would be required to be filed with Forms 10-Q and 10-K; and
- Fewer related-person transactions may qualify for the Item 404(a) of Regulation S-K exception for compensation reported under Item 402 of Regulation S-K.

Under this narrowing of the NEO population, the Proposed Rules would not require compensation information to be provided with respect to sometimes critically important (and potentially highly compensated) operating executives who are not the PEO or PFO. As with any line-drawing exercise, the limitation to PEO and PFO may allow for omission of important information for certain companies. However, this is also possible under the current regime.

We expect this particular aspect of the Proposed Rules to garner significant commentary. The limitation on information for other executives would also limit important information for benchmarking of executive compensation and publicly available due diligence information for mergers and acquisitions or similar transactions.

Rationalization and Revision of Compensation Tables

The Commission's proposed changes to the required compensation tables are responsive to a widespread belief that the current disclosures are overly complex and, due to several previous choices as to timing and valuation methodology, are sometimes viewed as giving a misleading perspective on compensation. The Commission's view is that the current Summary Compensation Table combines compensation that has been earned, such as salary and annual bonuses, with compensation that has been granted but may never have been earned, such as performance-based equity awards. In essence, the information currently presented mixes "apples and oranges." To mitigate this issue, the Proposed Rules would divide the information into two tables, each generally covering the last three fiscal years, and add a third table focused specifically on equity awards.

1. *Earned Compensation Table.* This table would capture compensation earned in each covered year in the following columns:
    - Salary earned;

- Non-equity awards earned, combining what are currently separate bonus and non-equity incentive plan columns;
- Stock awards valued when they vest;
- Option awards valued when they are exercised;
- Miscellaneous compensation received; and
- Total Compensation Earned.

The miscellaneous column would consolidate several categories of compensation:

- Perquisites above the new ($150,000) threshold;
- Tax gross-ups;
- Termination and change-in-control payments paid or accrued;
- Company contributions to defined contribution and nonqualified deferred compensation plans, and above-market earnings on deferred compensation;
- Pension service costs and prior service costs;
- Life insurance premiums;
- Dividends on outstanding awards; and
- Any other compensation the company determines is material or elects to disclose.

For defined benefit plans, the table would reflect the incremental service benefit earned for the year rather than the overall change in pension value.

Earned Compensation Table							
Name and Position	**Year**	**Salary Earned ($)**	**Non-Equity Awards Earned ($)**	**Equity Awards**		**Miscellaneous Compensation Received ($)**	**Total Compensation Earned ($)**
				Stock Awards Vested ($)	**Option Awards Exercised ($)**		
(a)	*(b)*	*(c)*	*(d)*	*(e)*	*(f)*	*(g)*	*(h)*
[PEO]							
[PFO]							

2. *Granted Compensation Table*. This table would capture the primary elements of pay granted each year, generally at target value:

- Annualized base salary as of fiscal year-end, so salary increases effective by year-end would be reflected;
- Non-equity awards at their aggregate target value; and
- Stock and option awards at grant-date fair value under FASB ASC Topic 718, assuming target performance (as opposed to the current "probable outcome" standard).

The Commission intends the Granted Compensation Table to resemble the "total direct compensation" presentations many companies already use. The proposal would also address a long-standing timing issue. Specifically, equity awards granted shortly after year-end in recognition of the prior year's performance could be reported in the prior year to align with the disclosure of cash bonuses.

Granted Compensation Table						
Name and Position	**Year**	**Annualized Salary ($)**	**Non-Equity Awards Granted ($)**	**Equity Awards**		**Total Compensation Granted ($)**
				Stock Awards Granted ($)	**Option Awards Granted ($)**	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
[PEO]						
[PFO]						

3. *Status of Equity Awards Table*. This new table would replace the current Outstanding Equity Awards at Fiscal Year-End Table and would incorporate concepts from the Grants of Plan-Based Awards Table. It would present each award that is outstanding, newly granted, newly vested, exercised or expired during the applicable year. Awards would be shown in number of shares rather than hypothetical dollar values, with threshold, target and maximum amounts clearly

labeled where an award has a range of potential outcomes. The table would also show exercise prices for options and the current status of each award. Companies would be required to disclose the material terms of any performance, market or service conditions. The Commission notes that this approach responds to investor feedback that it is currently "incredibly hard to follow one equity grant through its life[cycle]." It would also eliminate the current requirement to compute hypothetical year-end payout values for unvested awards.

Status of Equity Awards Table								
Name and Position	Equity Award Terms						Equity Award Status	
	Grant Date	Award Type	Grant Amount or Range (#)	End of Performance Period, If Applicable	Final Vesting Date, If Known	Exercise Price, If Applicable	Amount Vested (#)	Amount of Options Exercised / Expired (#)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
[PEO]								
[PFO]								

More Flexible Perk Disclosure

Under the Proposed Rules, perquisites would be reported in the "Miscellaneous Compensation Received" column of the Earned Compensation Table only if their aggregate value for an NEO is $150,000 or more for the year. The current threshold of $10,000 has not been updated since 2006. The Commission cites inflation and "modern compensation levels" as reasons for the proposed substantial increase. Individual perquisites would no longer need to be separately identified or quantified unless material. The Proposed Rules would add two further accommodations:

- Companies could exclude any individual item that qualifies as a *de minimis* fringe benefit under Section 132(a)(4) of the Internal Revenue Code when determining whether the threshold is met, so those items would not need to be tracked.
- Companies would no longer be required to value perquisites at aggregate incremental cost and could, for example, use values already determined for federal income tax purposes. Aggregate incremental cost would remain a permitted method.

The Commission also proposed revising its 2006 interpretive guidance on the two-part test for identifying perquisites. Under the first prong, an item would not be a perquisite if the company determines, reasonably and in good faith, that it is "integrally and directly related" to the performance of the executive's duties. The current guidance characterizes this concept as a "narrow one," but the concept would now be more flexible. Business purpose and benefit to the company could now be considered as relevant factors under this test. Under the second prong, an item that is not integrally and directly related would be a perquisite if it confers a direct or indirect personal benefit, unless it is generally available on a non-discriminatory basis to all employees.

The proposing release explains that, for example, if a company reasonably and in good faith concludes that executive security services, or required use of company aircraft for personal travel due to security concerns, is integrally and directly related to the performance of the PEO's or PFO's duties, those items would not be considered perquisites.

Streamlining of the CD&A

The CD&A would continue to be required for registrants other than smaller reporting companies, emerging growth companies and foreign private issuers, but would now be required to address only three topics:

- The objectives of the company's compensation program in relation to its corporate strategy;
- The material elements of compensation and how those amounts are determined; and
- If applicable, whether and how the company considered the results of its most recent say-on-pay vote.

The CD&A would still need to address material post-fiscal-year actions that could affect a fair understanding of the prior year's compensation. One interesting item in the Proposed Rules would require

issuers to explain why non-generally accepted accounting principles (non-GAAP) metrics used in their compensation programs are more appropriate than the corresponding GAAP measure.

Termination, Change-in-Control and Golden Parachute Disclosure Simplified

Proposed Item 402(i) of Regulation S-K would eliminate the current requirement to quantify potential payments and benefits to NEOs under various hypothetical termination and change-in-control scenarios. Companies would now instead describe the material terms of written and unwritten arrangements that provide for such payments to any person who served as PEO or PFO during the year. For many companies, this would eliminate another current tabular disclosure that is time-consuming to prepare.

Director Compensation Disclosure Would Become More Flexible

The currently required Director Compensation Table would be eliminated. Companies would be required to narratively describe the material aspects of their director compensation program, including separate quantification of cash and equity retainers for board, committee, chair and other services. For each person who served as a director during the year, companies would disclose:

- Aggregate cash earned;
- The value realized on stock awards that vested and options that were exercised, rather than grant-date fair value;
- The number of outstanding equity awards at year-end, with the grant date, vesting schedule and other material terms of each award; and
- Any other material compensation.

Pay-Versus-Performance Would Be Substantially Simplified

The current pay-versus-performance rule requires five years of disclosure of a specialized measure, "Compensation Actually Paid." "Compensation Actually Paid" is a measure that must be specially calculated for purposes of the pay-versus-performance rule, and the Commission is proposing to eliminate this separate and bespoke calculation.

Under proposed Item 402(f) of Regulation S-K, compensation actually paid would now leverage the "Total Compensation Earned" amount from the Earned Compensation Table. The Commission believes this better reflects "executive compensation actually paid" because it includes only amounts to which the executive is immediately entitled. Companies would now be required to provide a clear description of the relationship between that amount, for each of the PEO and PFO, and the company's cumulative TSR over the last three (rather than five) fiscal years.

Pay Ratio Would Now Analyze a Narrower, More Uniform Employee Population

The Commission proposes to identify the median employee for pay-ratio purposes only from employees of the company and its consolidated subsidiaries who are employed full time in the United States or its territories. Non-U.S., part-time, seasonal and temporary workers, all of whom are currently included, would now be excluded.

Annual total compensation for both the PEO and the median employee would be calculated using the Granted Compensation Table methodology. The identification of the median employee would need to occur at least once every five years (rather than every three under the current rules), as of a date within the last three months of the fiscal year.

Clawback Disclosure Would Be Narrowed

The Proposed Rules would not amend Exchange Act Rule 10D-1 or the exchange listing standards requiring clawback policies, which remain in full effect. They would, however, make three changes to clawback disclosure:

- Eliminate the two cover-page check boxes on Forms 10-K, 20-F and 40-F indicating whether the financial statements reflect an error correction and whether any correction required a recovery analysis;
- Eliminate the requirement to explain why a company concluded that recovery was not required following a restatement, which the staff has observed is often boilerplate; and
- Remove the requirement to break out amounts for which recovery is impracticable for each current and former NEO and for other executive officers as a group.

Companies would still be required to disclose actions to recover erroneously awarded compensation following a restatement, including aggregate amounts determined to be impracticable to recover.

Other Eliminated Disclosures and Timing Changes

The Proposed Rules would eliminate Item 402(s) of Regulation S-K, which requires discussion of compensation policies and practices relating to risk management. The SEC staff has observed that this disclosure is often boilerplate and thus of limited utility to investors. The Commission would also eliminate Item 402(x) of Regulation S-K, which requires narrative and tabular disclosure about the timing of option grants close in time to the release of material nonpublic information.

Important Relief for Long-Form Registration Statements

Finally, in an important development for securities offerings at the beginning of the fiscal year, when it is often difficult to complete the compensation information for the year that just concluded, companies filing long-form registration statements, such as Forms S-1 or S-4, would have until the earlier of 120 days after fiscal year-end or the filing of their Exchange Act report to provide Item 402 disclosure for the most recent fiscal year. This would align long-form registration statements (*e.g.,* Form S-1) with the timing currently available for short-form registration statements (*e.g.,* Form S-3).

Timing and Next Steps

As proposed, the rules would become effective on January 1 following publication of the final rules (*e.g.,* January 1, 2028, if published during 2027) and compliance would be required with respect to compensation information for the first full fiscal year ending on or after that date (if published in 2027, mandatory compliance for calendar year companies would be required in their 2029 proxy statement). In the meantime, we recommend that companies:

- Consider whether to submit comments, alone or through industry groups, on aspects of particular significance (for example, the NEO definition, the perquisite threshold and guidance or the pay-versus-performance measure);
- Begin assessing how their compensation data would be incorporated into the three new tables, including the treatment of equity awards granted after fiscal year-end for prior-year performance;
- Review perquisite programs, including executive security arrangements, and the governance processes needed to support good-faith determinations as to whether they will be considered perquisites under the new regime;
- Identify plans, agreements, policies and Form 8-K disclosure controls that reference NEOs;
- Brief compensation committees, since the principles-based approach would place greater emphasis on materiality judgments that committees and management would need to make and support; and
- Monitor investor and proxy advisor feedback on the proposal with a view to assessing shareholder sentiment with respect to any reduction in compensation disclosures.

We will continue to monitor the rulemaking and will provide further updates as developments occur.

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1 Executive Compensation Disclosure Reform, Release Nos. 33-11455, 34-106873, IC-36385 (File No. S7-2026-39).

2 Cravath Comment Letter; https://www.sec.gov/comments/4-855/4855-614887-1802674.pdf.

3 Under the current rule, Smaller Reporting Companies and Emerging Growth Companies may include disclosure for a more limited set of NEOs.