

Surveys Find Limited Pay-for-Performance Disclosure and Wide Use of Stock Ownership Guidelines

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A [Towers Watson survey](#) found that only about 27% of Fortune 500 companies provided some type of pay-for-performance discussion in 2014. Only 4% of companies added new disclosure, while 5% eliminated it after including it in the prior year.

According to the survey, 29% of those that disclosed pay-for-performance at all offered an alternate pay calculation, such as realizable or realized pay. The vast majority used a pay-for-performance alignment approach that tied the achievement of performance metrics, typically total shareholder return, with the level of pay. Three to five years was the most common time horizon. Last fall, Towers Watson found that while most companies conduct a pay-for-performance analysis, many do not disclose it. It appears companies are waiting for the SEC to adopt its rules on pay-for-performance disclosure.

A [separate Towers Watson survey](#) on stock ownership guidelines disclosed in 2014 proxy statements by the Fortune 500 found that 99% have ownership guidelines, while 45% also have a retention policy.

Most guidelines apply only to CEOs and other NEOs, but some guidelines cover hundreds of employees. The most common measure, used by 85% of companies, is a salary multiple. Companies are increasingly requiring CEOs to own larger stakes, and the median CEO ownership requirement is now six times salary, allowing for five years to meet the guidelines.

Most companies count restricted shares or deferred shares, and about a third also allow shares indirectly owned to be applied toward the guidelines. Shares are commonly valued based on a specific date or average of closing prices for some time period.

If you have any questions regarding the matters covered in this publication, please reach out to any of the lawyers listed below or your usual Davis Polk contact.

Ning Chiu

+1 212 450 4908

ning.chiu@davispolk.com

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