

Pay for Performance Trends

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As companies begin to assess the impact of the SEC's recent pay versus performance rule proposal, which we discussed [here](#), ISS Corporate Solutions reports that performance pay now comprises about 55% of total compensation. 80% of companies are also using long-term performance awards.

Total shareholder return (TSR) remains the top performance metric used for long-term performance awards, with 58% of companies adopting TSR. It is also the sole metric in the SEC rule proposal selected to benchmark a company's financial performance, although unfortunately the SEC requires companies to use TSR to measure not only performance awards, but all compensation "actually paid."

48% of companies choose earnings instead. Earnings were once the dominant measure until being overtaken by TSR around 2012.

ISS indicates that rather than finding compensation practices becoming more homogenous, as some had feared, they see instead an increase in complexity. There has been a growth in a number of practices that could result in making compensation difficult to understand: about 60% of companies annually change performance metrics for either short-term, long-term or both types of awards; the number of metrics used in performance awards continues to grow; nearly a third of companies have four or more payout levels rather than the standard three (threshold, target, maximum); and a third of companies use a "conditional" or "modifier" metric in addition to provide an additional hurdle to achieving awards.

According to ISS, investors focus their concerns on significant changes in metrics or goal levels, the use of compensation design that are clearly different than their peers, and whether performance goals are different than what the analysts expected.

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.

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