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SEC Issues Final Rules on Executive and Director Compensation Disclosure Requirements

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With increasing investor scrutiny of executive compensation practices and stock option scandals grabbing news headlines, public companies now face another hurdle in adapting to new Securities and Exchange Commission (SEC) disclosure standards adopted partially in response to these investor concerns. Reflecting a move toward more principles-based disclosure, the SEC rules require extensive review and preparation in their first year of implementation.

On August 11, 2006, the SEC approved final rules it had proposed in January on disclosure in public company proxy statements and other SEC filings of executive and director compensation, related party transactions, director independence, security ownership of officers and directors and other corporate governance matters. The new rules went into effect on November 7, 2006, including changes to current reporting requirements on Form 8-K.

The final rules apply to 2007 annual proxy statements for companies whose fiscal years end on or after December 15, 2006. The SEC staff has issued transition guidance that permits companies to voluntarily comply with the new rules as soon as they are effective. The final rules aim to:

- provide investors with a clearer and more complete picture of compensation to principal executive officers, principal financial officers and the other highest paid executive officers and directors;
- expand disclosure related to beneficial ownership;
- improve disclosure related to participation by executive officers, directors, significant shareholders and other related parties in financial transactions and relationships with the company;
- refine compensation-related disclosure requirements related to Current Reports on Form 8-K; and
- consolidate existing disclosure requirements regarding director independence and corporate governance.

To ensure that the final rules result in disclosure that is clear, concise and understandable for investors, the SEC requires that companies present most of the new disclosure in plain English.

Executive and Director Compensation Disclosure

The final rules follow guiding principles designed to expand current disclosure requirements related to compensation that the SEC has called “highly formatted and rigid.” The final rules:

- retain the tabular approach to provide clarity and comparability while improv-

ing the tabular disclosure requirements;

- ensure that all elements of compensation be included in the tables;
- require disclosure in the Summary Compensation Table of a single dollar amount for total compensation; and
- include narrative disclosure comprising both a general discussion and analysis of compensation and specific material information regarding tabular items necessary for an understanding of the tabular disclosure.

Option Grant Disclosure

The final rules expand the current disclosure requirements of stock option grants and policies, including specific disclosure of below-market and “timed” options (including backdated stock options), and any practices regarding the timing of option grants in coordination with the release of material non-public information. In particular:

- any policy that results in the exercise price of an option not being the closing market price on the date of grant requires an additional description of the methodology for determining the exercise price; and
- any grant of an option with an exercise price lower than the closing market price on the date of grant, or any option for which the grant date is different from the date the relevant board committee took action to grant the option would require additional disclosure.

This disclosure generally applies to option grants and policies beginning in 2006.

Compensation Discussion and Analysis

The final rules provide for a new Compensation Discussion and Analysis (CD&A), including a discussion and analysis of material factors underlying compensation policies and decisions reflected in the data presented in compensation-related tables. This overview, which precedes the compensation tables, is intended to capture material elements of compensation for named executive officers by requiring companies to address:

- the objectives for their compensation programs;
- what each element of compensation is and what each is designed to reward;
- why each element is chosen and how each element is determined; and
- how each element fits into the company’s overall compensation objectives.

CD&A is designed to discourage the use of boilerplate disclosure and requires a comprehensive discussion of post-termination as well as in-service compensation arrangements and policies that the company applies on a going-forward basis. The final rules provide that the CD&A must address both the last fiscal year and actions taken after the fiscal year-end. In addition, it may be necessary in some situations to discuss prior years to give context to the disclosure provided in the CD&A. The SEC indicates that the CD&A should be sufficiently precise to identify material differences in compensation policies and decisions for individual executives. Where policies or decisions are materially similar, the executives can be grouped together. Where there are material differences, however, a separate discussion is required.

The SEC has adopted fifteen examples of issues that are appropriate for companies to address in CD&A. Among the topics that should be discussed, if material, are stock option granting practices, including how a company determines when options are granted and how options are priced, and the criteria used to determine awards. Other topics include how specific forms of compensation are structured and implemented to reflect the registrant’s performance, the individual’s performance and whether any discretion was exercised as to any particular named executive or all compensation subject to the relevant performance goal.

Under the final rules the CD&A is “filed with the SEC,” and thus subject to more stringent liability standards under applicable securities laws. And if the CD&A and any of the other disclosure regarding executive officer and director compensation or other matters is included or incorporated by reference into a periodic report (such as an annual report on Form 10-K), the disclosure is covered by the certifications that chief executive officers and chief financial officers are required to make under the Sarbanes-Oxley Act of 2002. Forward-looking information in the CD&A falls within the safe harbor for disclosure of such information.

- The CD&A is substantially different from the existing Compensation Committee Report and requires the input of management, the compensation committee and, quite possibly, outside consultants. Therefore, especially in the first year under the final rules, we advise all companies to start the drafting process early.
- In addition, because the CD&A is covered by executive officer certifications, we advise that all companies satisfy themselves that their disclosure controls and procedures provide adequate review and input.
- As was the case with the former Compensation Committee Report, companies are not required to disclose target levels with respect to specific performance-related factors that affect compensation. The SEC has clarified, however, that the standard for making the determination that this information need not be disclosed is the same as that applicable to requests for confidential treatment of exhibits filed with the SEC.

Compensation Committee Report

The final rules also require a new shortened Compensation Committee Report, consisting of a statement that the compensation committee has reviewed the CD&A with management and has recommended to the board of directors that the CD&A be included in the company's proxy statement. The new Compensation Committee Report is "furnished" rather than "filed" with the SEC, and chief executive officers and chief financial officers may look to it in providing their certifications as they relate to the CD&A.

Compensation Tables

The final rules require a reorganized tabular and narrative disclosure about compensation in three broad categories: compensation received for the last three completed fiscal years, holdings of compensatory equity-based interests, and retirement and other post-employment compensation. All tables require disclosure for the principal executive officer, the principal financial officer and the three other most highly compensated executive officers.

Summary Compensation Table

The following Summary Compensation Table requires detailed disclosure with respect to compensation received by the named executive officers for the company's last three completed fiscal years. All compensation set forth in the Summary Compensation Table would be provided in dollars rather than in numbers of shares or other units.

Name & Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$)	All Other Compensation	Total (\$)
a	b	c	d	e	f	g	h	i	j

- **Salary and Bonus columns (c) & (d).** These columns are retained substantially in their current form, with three significant changes:
 - » distinguishing between discretionary bonuses and "incentive plan compensation," the Bonus column includes only cash awards that are based on satisfaction of a performance target that is not pre-established and communicated or the outcome of which was substantially certain at the time it was communicated;
 - » any compensation that is currently payable but has been deferred not only is included in the salary, bonus or other compensation columns as appropriate (as is currently required), but also is broken out in a footnote to the applicable column; and
 - » if a named executive officer's salary or bonus is not determinable as of the time of the proxy statement, footnote disclosure is required noting when the calculation is expected to be made (the company is also required to report on Form 8-K the amount when it becomes calculable).

- **Stock Awards and Option Awards columns (e) & (f).** The Stock Awards column discloses stock-related awards that derive their value from the company's equity securities or permit settlement by issuance of the company's equity securities. Valuation is based on the grant date fair value of the award determined pursuant to Financial Accounting Standards Board Statement of Financial Accounting Standards No. 123 (revised 2004) (FAS 123R). Awards of options, stock appreciation rights grants and similar stock-based compensation instruments that have option-like features are disclosed in the Option Awards Column based on the grant date fair value of the award as determined pursuant to FAS 123R (the full fair value, not just what was expensed by the company during the period covered). The final rules require separate disclosure of any earnings on outstanding awards (for instance, dividend equivalent earnings on stock-based awards) that are not included in the grant date fair value calculation for those awards in the All Other Compensation column (i) when these earnings are paid. In addition, previously awarded options or freestanding stock appreciation awards that the company repriced or otherwise materially modified during the last fiscal year are disclosed as to the incremental value resulting from a repricing or material modification, consistent with the treatment under FAS 123R.
- **Non-Stock Incentive Plan Compensation column (g).** This column discloses the value of all other incentive plan awards where the relevant performance measure is not based on the price of the company's equity securities (but instead is tied to measures such as return on assets, return on equity, etc.) and that are not settled by the issuance of equity securities. Unlike the immediately preceding columns, these awards are disclosed in the Summary Compensation Table in the year when the performance criteria are satisfied and the compensation is earned (whether or not paid in that year), not at the time of grant. The grant of the award is disclosed in the supplemental Grants of Plan-Based Awards Table. Earnings on these outstanding awards are also included in this column and identified and quantified in a footnote.
- **Change in Pension Value and Non-Qualified Deferred Compensation Earnings column (h).** This column quantifies the yearly increase in the actuarial value of all defined benefit and actuarial plans and any above-market or preferential earnings on non-qualified deferred compensation. Disclosure of the increase in pension value is required for any defined benefit or actuarial plans. If any amount attributable to a change in value of a defined benefit or actuarial plan is negative, that amount is disclosed by footnote but not in the column. Earnings on nonqualified deferred compensation are included only to the extent that they are above-market or preferential. The above-market or preferential portion of deferred compensation earnings is determined for interest by reference to 120% of the applicable federal long-term rate and for dividends by reference to the dividend rate on the company's stock. The company's criteria for determining any portion considered to be above-market may be disclosed in a footnote or in the narrative disclosure. Footnote identification and quantification of the full amount attributable to the change in value of a defined benefit plan and earnings on deferred compensation is required.
- **All Other Compensation column (i).** This column would require disclosure of all other current compensation not included in any other column. Each item of compensation included in this column exceeding \$10,000 must be separately identified and quantified in a footnote. Examples of required compensation disclosure in this column include:
 - » company contributions to defined contribution plans, and earnings credited under defined contribution plans that are not tax-qualified, including non-qualified deferred compensation plans;
 - » if the aggregate amount of perquisites and other personal benefits equals or exceeds \$10,000 (a decrease from the current threshold of \$50,000 or ten percent of the named executive officer's annual base salary and bonus, if less), specific identification of each perquisite and other personal benefit and, if the perquisite or other personal benefit is valued at the greater of \$25,000 or ten percent of total perquisites and other personal benefits, then disclosure of the value as well. The value of perquisites and other personal benefits is the aggregate incremental cost to the company and its subsidiaries;
 - » amounts paid or accrued pursuant to a plan or arrangement in connection with any termination or constructive termination of employment or a change in control;
 - » insurance premiums paid by the company with respect to life insurance for the benefit of a named executive officer;
 - » "gross-ups" or other amounts reimbursed during the fiscal year for the payment of taxes;
 - » for any security of the company or its subsidiaries purchased from the company or its subsidiaries at a discount which is not available generally either to all security holders or to all salaried employees of the company, the compensation cost computed in accordance with FAS 123R; and

- » the dollar value of any earnings on outstanding stock or option awards that are not included in the grant date fair value calculation of the award in the Stock Awards and Option Awards Columns.
- **Total Compensation column (j).** This column shows the dollar value of all compensation received by a named executive officer in a given year, calculated by adding the total dollar value of each form of compensation quantified in the columns that precede it.

Officers Covered

Named Executive Officers

The named executive officers under the final rules consist of the principal executive officer, the principal financial officer and the three most highly compensated executive officers other than the principal executive officer and principal financial officer. This is a departure from the prior rules which required compensation disclosure for the chief executive officer and the next four most highly paid executive officers, which may or may not include the principal financial officer. In addition, companies must continue to disclose compensation for up to two additional individuals for whom disclosure would have been required but for the fact that they were no longer serving as executive officers at the end of the last completed fiscal year.

Identification of Most Highly Compensated Officers

Dollar Threshold for Disclosure

The final rules require identification of the most highly compensated executive officers on the basis of total compensation for the most recent fiscal year, excluding the sum of the increase in the value of all defined benefit and actuarial plans and any above-market or preferential earnings on non-qualified deferred compensation reported in column (h) of the Summary Compensation Table. No disclosure need be provided for any executive officer, other than the principal executive officer and the principal financial officer, whose total compensation for the last fiscal year does not exceed \$100,000. This is in contrast to the current rules which look only to total annual salary and bonus. The final rules eliminate the ability to exclude an executive officer due to an unusually large amount of cash compensation that is not part of a recurring arrangement and is unlikely to continue, while retaining the ability to exclude an executive officer, other than the principal executive officer and the principal financial officer, due to cash compensation relating to overseas assignments attributed predominantly to such assignments.

It is also important to note that while exclusion of change in pension value and above-market earnings on deferred compensation may eliminate some concerns about pay “lumpiness,” companies should be aware that one-time cash or stock bonuses and tax gross-ups could cause an executive officer to “pop up” into the named executive officer ranks. Companies should therefore ensure that this is considered when making such one-off payments to executives.

Grants of Plan-Based Awards Table

The final rules require a supplemental Grants of Plan-Based Awards table that provides back-up for information in the Summary Compensation Table. This table follows the Summary Compensation Table and contains information about awards granted during the last fiscal year to each named executive officer under an incentive plan or otherwise contingent on the achievement of performance goals, including estimated future payouts for threshold, target and maximum performance for both equity incentive plans and non-equity incentive plans, with separate disclosure for each grant. Companies separately disclose each grant (including options) and, if awarded under more than one plan, each plan. Separate disclosure is also required for any repricings of options or stock appreciation rights that may have occurred during the last fiscal year. Footnote disclosure accompanying the table must disclose material terms of the awards (such as a reload or tax-reimbursement feature or a feature allowing the exercise price of the award to be lowered).

An additional column disclosing the closing market price on the date of grant must be added if the exercise or base price of an award is less than the closing market price on the date of grant. This is the case even if the exercise price is based on a “fair market value” formula that may be consistent with accounting and tax requirements (such as the average of the high and low prices on the grant date or a trailing average price formula). Additional footnote disclosure is also required regarding the methodology used in determining the price. An addi-

tional column must also be added to the table if the grant date is different from the date on which the board or committee took action. The new column must show the date of committee action.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards					
Name	Grant Date	Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Award (\$/Sh)
a	b	c	d	e	f	g	h	i	j	k

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

The new rules require a narrative description of any additional material factors necessary to an understanding of the quantitative disclosure in the tables immediately following the Summary Compensation Table and the Grants of Plan-Based Awards Table, such as:

- material terms of employment agreements;
- repricings or other material modifications of outstanding options or other stock-based awards during the last fiscal year;
- material terms of awards such as the vesting schedule, a description of the performance-based conditions and whether dividends will be paid;
- any material waiver or modification of any specified performance target, goal or condition to payout under any reported incentive plan payout; and
- level of salary and bonus in proportion to total compensation.

This narrative section must include additional disclosure regarding post-termination compensation to the extent disclosure of post-termination compensation is required in the Summary Compensation Table.

Exercises and Holdings of Previously Awarded Equity

The section following the Summary Compensation Table and the Grants of Plan-Based Awards Table consists of two tables:

- Outstanding Equity Awards at Fiscal Year-End Table. This table contains information regarding outstanding equity-based awards, including the potential dollar amounts realizable with respect to each award, and requiring separate disclosure of option exercise prices and expiration dates for each award.

Name	Option Awards			Equity Incentive Plan Awards			Stock Awards		Equity Incentive Plan Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock that have not Vested (#)	Market Value of Shares or Units of Stock that have not Vested (\$)	Equity Incentive Plan Award: Number of Unearned Shares, Units or Other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights that have not Vested (\$)	
a	b	c	d	e	f	g	h	i	j	

- Option Exercises and Stock Vesting Table. This table shows the dollar amounts realized pursuant to the vesting or exercise of equity-based awards during the latest fiscal year.

Name	Option Awards Number of Shares Acquired on Exercise (#)	Value Realized On Exercise (\$)	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
a	b	c	d	e

Post-Employment Compensation

A third section, replacing the current Pension Plan Table, consists of the following two tables and specific narrative disclosure of payments made in connection with the severance or other termination of a named executive officer, a change in his or her responsibilities, or a change in control of the company:

Pension Benefits Table

This table requires disclosure of the value of defined benefit pension benefits for each named executive officer. The table includes all qualified and nonqualified defined benefit plans and supplemental employee retirement plans, but excludes qualified and nonqualified defined contribution plans. Separate disclosure is required for each plan. The final rules require quantification of the defined benefits by reference to the actuarial present value of the accumulated benefits, without regard to the particular form of benefit payable under the plan. The table also includes years of service recognized under each plan and pension benefits paid during the company's last fiscal year. The table is followed by narrative disclosure of any material factors necessary to understand the benefits payable under the plans, which may include:

- the plan's retirement benefit formula, eligibility standards and early retirement arrangements;
- the specific elements of compensation included in applying the benefit formula;
- regarding participation in multiple plans, the reasons for each plan; and
- company policies with regard to such matters as granting extra years of credited service.

Companies should also note that calculation of the actuarial present value of benefits requires the involvement of a plan actuary and should incorporate this into the proxy statement production schedules and the company's disclosure control process.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
a	b	c	d	e

Nonqualified Deferred Compensation Table

This table requires disclosure of information regarding non-qualified defined contribution and other deferred compensation plans, followed by a narrative description of material factors necessary to an understanding of the disclosure in the table, such as:

- the types of compensation that may be deferred, and any limitations on the extent to which deferral is permitted;
- the measures of calculating interest or other plan earnings; and
- material terms with respect to payouts, withdrawals and other distributions.

Footnote disclosure must indicate the amount of contributions and earnings previously reported in the Summary Compensation Table and the extent to which amounts reported in the aggregate balance column were reported in previous years' Summary Compensation Tables.

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY (\$)	Aggregate Earnings in Last FY (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last FYE (\$)
a	b	c	d	e	f

Other Potential Post-Employment Payments

The final rules require narrative disclosure of specific aspects of any written or unwritten arrangement that provides for payments related to the resignation, severance, retirement or other termination (including constructive termination) of a named executive officer, a change in his or her responsibilities, or a change in control of the company, including:

- a description of the triggering events;
- the estimated payments and benefits that would be provided in each termination circumstance;
- the factors used to determine the appropriate payment and benefit levels under each termination circumstance; and
- any material conditions or obligations applicable to the receipt of payments or benefits.

The discussion requires disclosure of the duration of non-compete and similar agreements, provisions regarding waiver of breach of these agreements and any tax gross-up payments. In quantifying estimated payments, the final rules require the company to assume that the triggering event took place on the last business day of the fiscal year and the price per share of the company's securities was the closing market price on that date. Where other uncertainties exist, the final rules require the company make reasonable estimates and disclose material assumptions underlying the estimates.

Calculation of estimated termination payment and benefits can be a complicated and involved process that may necessitate engagement of an experienced outside consultant.

Compensation of Directors

Under the final rules, companies present director compensation in a Director Compensation Table accompanied by narrative disclosure of additional material information. The Director Compensation Table resembles the new Summary Compensation Table but requires disclosure of information only with respect to the last completed fiscal year. Additionally, the final rules permit the grouping of multiple directors to the extent all of their elements and amounts of compensation are identical.

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
a	b	c	d	e	f	g	h

Revisions to Form 8-K

The final rules revise current reports on Form 8-K by eliminating the need to disclose employment compensation arrangements under Item 1.01 and instead covering compensation arrangements involving named executive officers under a modified Item 5.02 by:

- expanding the information regarding retirement, resignation or termination of directors and officers to include all named executive officers for the company's previous fiscal year;
- expanding the items requiring disclosure to include a description of any material plan, contract or arrangement to which a covered officer or director is a party or in which he or she participates that is entered into or materially amended in connection with any of the triggering events specified in Item 5.02, or any grant or award to a covered person, or modification thereto, in connection with any specified event;
- with respect to the principal executive officer, the principal financial officer, or named executive officers for the company's previous fiscal year, expanding the disclosure to include a description of any material new compensatory plan, contract or arrangement, or new grant or award thereunder (whether oral or written), and any material amendment to any compensatory plan, contract or arrangement (or any modification to a grant or award thereunder), whether or not the occurrence is in connection with a triggering event specified in Item

5.02. Disclosure would not be required if the grants, awards or modifications are consistent with the terms of previously disclosed plans or arrangements and they are disclosed the next time the company is required to provide new disclosure under Item 402 of Regulation S-K; and

- adding a requirement for disclosure of salary and bonus for the most recent fiscal year that was not available at the latest practicable date in connection with disclosure under Item 402 of Regulation S-K.

The final rules extend the safe harbors regarding Section 10(b) and Rule 10b-5 and Form S-3 eligibility if a company fails to timely file reports required by Item 5.02(e) of Form 8-K. The revised disclosure rules went into effect on November 7, 2006.

Beneficial Ownership Disclosure

The final rules amend Item 403(b) of Regulation S-K to include disclosure of the number of shares pledged as security by named executive officers, directors and director nominees. The SEC believes that the existence of these securities pledges could be material to shareholders. The final rules also specifically require disclosure of beneficial ownership of directors' qualifying shares, which was not required previously.

Certain Relationships and Related Transactions Disclosure

The final rules adopt changes to Item 404 of Regulation S-K to provide a complete picture of financial relationships with a company and related persons. The amended disclosure requirements for related-party transactions eliminate some of the detailed instructions in an effort to make the disclosure requirements more principles-based.

The amended Item 404 defines the term "transaction" as including "any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships." As amended, Items 404(a) and (b):

- increase the dollar threshold for disclosure of a related-party transaction from \$60,000 to \$120,000;
- extend the disclosure requirements to any transaction involving a person who was a related party at any time during the last fiscal year, even if the person was not a related party at the time of the transaction, except that transactions involving a five percent shareholder are disclosable only if the person was a five percent shareholder at the time of the transaction; and
- require the company to describe: (1) its policies and procedures for the review, approval or ratification of related-party transactions, (2) any transaction required to be disclosed under Item 404(a) that was not subject to review under the company's policies and procedures, and (3) any instances where the company did not follow its policies and procedures.

Conforming amendments have been made to the definition of Non-Employee Director for purposes of Rule 16b-3, which exempts from Section 16(b) liability stock option grants and certain other transactions that are approved a committee consisting solely of Non-Employee Directors. That definition now reflects the revised Item 404(a) disclosure requirements, which means that in some cases, previously ineligible directors may now be Non-Employee Directors. However, some formerly eligible directors may now become ineligible.

Corporate Governance

The final rules consolidated under a new Item 407 of Regulation S-K the existing disclosure requirements regarding director independence and corporate governance to reflect current requirements and the current listing standards. Some of the significant disclosures that Item 407 requires include:

- identification of independent directors and director nominees;
- identification of any members of the audit, nominating or compensation committees who are not independent;
- for each director or director nominee who is identified as independent, discussion of the types of transactions, relationships or arrangements not disclosed as related party transactions that the board of directors considered in determining whether applicable independence standards were met; and
- a narrative description of the processes and procedures for determining executive and director compensation, including any role played by executive officers or compensation consultants in determining the amount or form of director or executive officer compensation.

Long-Term Impact

With so many changes to executive compensation and corporate governance disclosure required in upcoming public company filings, in the short term, the new rules are sure to cause some confusion as companies prepare their proxy statements and annual reports without the benefit of extensive staff guidance or peer group precedent. However, the SEC staff has indicated that it intends to review the first crop of filings closely in its comment process to set the appropriate standards for disclosure under the new rules. In the long term, it remains to be seen whether the new rules will succeed in giving investors greater insight to companies' compensation practices and philosophy or in reining in the purported compensation excesses at which they are aimed.

For more information about the SEC Final Rules, visit www.sec.gov/rules/final/2006/33-3782.pdf

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