

CEO Pay Ratio Rule Compliance Services

The Current Environment

The basic framework of the CEO Pay Ratio Rule has been generally known since it was signed into law as part of the Dodd-Frank Act in 2010. Final rules from the Securities and Exchange Commission (SEC) have been in place since August of 2015. However, in a recently published survey, just fifteen percent of respondents indicated they were “quite” or “fully” prepared to comply with the required disclosure. While there was some anticipation at the beginning of 2017 that implementation might be repealed or delayed, that no longer appears likely before the rule is set to go into effect for proxies published in 2018.

Our Approach

The SEC allows companies to use a choice of methodologies intended to provide flexibility and simplify the calculation process. While the flexibility is essential, especially for large international companies with multiple payroll systems, pay jurisdictions, and pay components, the broad discretion allowed has confused some companies about what data and/or methodology is appropriate to use. In work with clients, Pearl Meyer has witnessed many different paths to compliance, each reasonable on its own merits when considering the company’s unique facts and circumstances. As a result of this experience, we have developed certain protocols to help companies comply with the rule and streamline the process.

Our Services

We assist in a variety of ways depending on a client’s needs—from an over-the-shoulder review of client data and assumptions to helping clients gather, assemble, and process all data and compute the ratio. We can also assess employee and other potential messaging risks and provide communication strategy and implementation guidance. We are available to make the process as efficient and cost-effective as possible. Some pieces of the pay ratio puzzle include:

Identification of Data

- Where is compensation data housed and how can it be centralized for use?
- What pay components are present in each jurisdiction and how important is it to capture all of this information?

Determination of Dates

- What is the appropriate date on which to identify the population of employees considered as median?
- What is the appropriate period of compensation to be considered and is a period prior to 2017 or a partial year acceptable?
- What happens if an employee who is part of the population group on the determination date was not employed during the compensation period considered, and vice-versa?

Identification of Individuals to be Considered as Median Employee

- Which individuals need to be included?
- How should overseas employees be handled?
- What kinds of independent contractors and consultants can be excluded?
- How should hourly employees be counted?
- What if the workforce has large turnover year to year?

Selection of Pay Elements to Determine the Median Employee

- Which elements of compensation are reasonable to use (known as “Consistently Applied Compensation Measures”)?
- Is base salary or base rate of pay an acceptable methodology?
- Should equity awards, bonuses, and/or perquisites be considered?
- Should the compensation of those employees not employed for a full year be annualized?

Statistical Sampling

- If the data is too cumbersome or not available, what are acceptable methodologies to use for sampling data or otherwise streamlining the process?

Application of the Rule

- How are certain elements of compensation in the Summary Compensation Table to be estimated on behalf of the median employee?
- If there has been more than one CEO during the year, what is the appropriate data to use?

Proxy Disclosure and Employee Communication

- What should the final disclosure look like?
- Should supplemental or alternative disclosures be provided?
- What level of detail is necessary as to assumptions, methodologies, and processes?
- To what extent does the company go—beyond the disclosure—to prepare for and explain the issues to its workforce and other stakeholders?

Tailored Solutions

There is no “one-size-fits-all” when calculating and communicating the CEO Pay Ratio. We partner with each company to find the right team and level of assistance so that you can effectively comply with the rule and deliver the right messages.

For more information and to find out how Pearl Meyer can help you with your CEO Pay Ratio Rule compliance, contact the Pearl Meyer office nearest you or visit www.pearlmeier.com/ceo-pay-ratio.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer’s global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, and Los Angeles.

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