

# Snapshot

AUGUST 30, 2022  
SNAPSHOT 2022-13

## SEC enhances executive compensation disclosure

The SEC issued a [Final Rule, Pay Versus Performance](#), to add new Item 402(v) to Regulation S-K. Item 402(v) requires a registrant to disclose the relationship between executive compensation actually paid and its financial performance by using both tabular and narrative disclosures. The new disclosures are required in proxy and information statements that require Item 402 executive compensation disclosure for fiscal years ending on or after December 16, 2022.

The Final Rule applies to all reporting issuers, except foreign private issuers, registered investment companies, and emerging growth companies. Smaller reporting companies are permitted to provide scaled disclosures. Additionally, transitional relief is provided that allows a registrant to provide three years of data in the first year of compliance, four years of data in the second year, and five years of data in the third year and beyond.

### Tabular disclosure

The Final Rule requires a registrant to provide tabular disclosure of certain executive compensation and financial performance measures for the five most recently completed fiscal years, including the following information:

- Total compensation for the principal executive officer (PEO) and average compensation for other named executive officers (non-PEO) from the Summary Compensation Table
- PEO compensation and average non-PEO compensation actually paid
- Total shareholder return (TSR) for the registrant
- TSR for the registrant's peer group
- Registrant's net income

- A company-selected measure (that is, a financial performance measure specified by the registrant that is linked to compensation paid)

### Narrative disclosure

New Item 402(v) requires a registrant to provide a clear description of the relationship between executive compensation actually paid to the PEO and the average executive compensation paid to the named executive officers other than the PEO and (1) the cumulative TSR of the registrant, (2) the registrant's net income, and (3) the company-selected measure, in each case, for the registrant's five most recently completed fiscal years. The rule also requires a clear description of the relationship between the registrant's TSR and its peer group TSR.

### 'Most important' performance measures

The new rule also requires a registrant to provide an unranked list of three to seven of the "most important" financial performance measures used by the registrant to link executive compensation actually paid to the named executives during the most recent fiscal year.

### Grant Thornton insight

In addition to the new required executive compensation disclosures, a registrant is permitted to voluntarily provide supplemental compensation or financial performance measures in a proxy or information statement. Such voluntary measures should (1) be clearly identified as supplemental, (2) not be misleading, and (3) not be presented with greater prominence than the required disclosures.

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