

Bridging stakeholder concerns – Enhancing accuracy and clarity in proxy disclosures

Executive compensation continues to be in the regulatory spotlight, with increasing pressures and scrutiny around the quality and transparency of compensation reporting. Company stakeholders have increased to include investors, suppliers, and employees postpandemic and there is a growing demand for appropriately linked disclosures in compensation plans with the broader human resources strategy of the company not to mention the “Say on Pay” rules and the chief executive officer pay ratio. As such, it is more important than ever for boards, committees, and senior management to be proactive and vigilant in ensuring good governance, transparency, and communication around their executive compensation practices and procedures.

Ideas to consider

Current proxy disclosures require comprehensive calculations and descriptions for each element of the executive compensation package. The Securities and Exchange Commission (SEC) has observed a number of deficiencies in the information provided that have led to restatements and ongoing scrutiny by the SEC and stakeholders.

Source: SEC Comment Letter Panel, 2023 AICPA & CIMA Conference on Current SEC and PCAOB Developments (December 5, 2023).

Examples include the following:

Continued mistakes and uncertainty in calculating amounts in the Post-Termination Compensation Table (e.g., improper use of the Section 280G “golden parachute” calculation to address change-in-control payments)	Director compensation improperly included or excluded in the disclosures (e.g., amounts do not match Board meeting minutes or are improperly reported in the wrong column)	Deferral amounts not properly calculated for proxy disclosure purposes, and often placed into the wrong tables/columns or not disclosed at all	Uncertainty in disclosure requirements for perquisites and benefits (e.g., spousal travel and dividend payments)
Insufficient description of the compensation risk assessment	Amounts reported in tables not properly tied back to source documentation or approved company policies, and/or calculated in a manner that is correct for other purposes but not compliant with the proxy regulations	Providing information that is inconsistent among the Compensation Discussion and Analysis (CD&A), tables, and footnotes	

Understanding the value, that KPMG can deliver to you

KPMG can review your company's draft proxy disclosure for accuracy, identify any risk issues or improper methodologies, provide comments on the CD&A language, and provide guidance on appropriate disclosure requirements and best practices.

Whereas counsel typically reviews the CD&A and general presentation of the tabular disclosures, KPMG traces the disclosures back to source documentation in our review, addition to reviewing the CD&A, tables, and footnotes. Common review items include discrepancies in proxy disclosures that are often missed in the normal review process.

Because of our breadth of experience in executive compensation, accounting, and broader human resources consulting, we can also comment on matters such as pay structure, plan design, and the calibration of incentives.

In addition, we can provide you with materials related to process and methodology (e.g., regarding change-in-control calculations), as well as examples of templates that illustrate the analyses you would perform. If a risk assessment is needed, then we can also review and provide comments on your analyses and results.



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