New Rule to Expose Pay Packages

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Elliot Blair Smith
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U.S. public companies must disclose new details of top executives' pay that will add tens of millions of dollars to the compensation totals some companies report to their shareholders under a rule the Securities and Exchange Commission adopted Wednesday.

Responding to investor outrage over runaway pay packages, the commission unanimously adopted reforms that will require deferred pay and retirement benefits to be factored into annual compensation totals for companies' top five executives in reports to regulators and shareholders beginning in December.

2005 CEO Compensation report: Pay soars as select group break $100M mark
Chart:2005 executive pay

"Golden parachutes" for executives who quit or are fired must also be clearly spelled out in the companies' public disclosures. And the companies will have to tell shareholders whether they coordinate the issuance of stock options to top executives with the release of material non-public information that may benefit them.

SEC Chairman Christopher Cox said "no issue" in the agency's 72-year history "has generated such interest" as requiring greater disclosure of corporate pay.

"The better information that both shareholders and boards of directors will get as a result of these new rules will help them make better decisions about the appropriate amount to pay the (executives) running their companies," Cox said.

The SEC proposal gained traction in recent months, amid growing controversy over the practices at dozens of U.S. companies to manage the dates on which executive stock options are awarded so their officials could take advantage of fluctuations in market values.

But for the public, the biggest impact is likely to come from seeing executive pay and bonuses combined with the annual accumulation of deferred benefits. ExxonMobil recently disclosed that it gave retiring CEO Lee Raymond a $98 million lump-sum pension payment in December, in addition to $9.9 million in salary and bonus, stock awards and such retirement perks as a car, driver and airplane use.

"The iceberg of retirement benefits will very much come to the surface," says Harvard University law professor Lucian Bebchuk, co-author of the book Pay Without Performance and a critic of "stealth compensation" he sees in the form of deferred compensation, pensions and assorted perks.

Bill Coleman, senior vice president of Salary.com, says the compensation totals are "going to be a shocking number for some people. You are going to see numbers that are tens or hundreds of millions of dollars." Coleman says, "People are going to be more under the microscope."

Ellen Zimiles, CEO of Daylight Forensic & Advisory, agrees. She says the new disclosures will "put a little strain between the board and the CEO, but that's what the board is for — to put oversight into the company."

Paul Dorf, managing director of Compensation Resources, responds that increased financial-reporting requirements are unlikely to rein in executive pay but will hasten the trend of public companies going private. "The reality," he says, "is some companies will say it's not worth it to be public companies."