



## Top 10 Topics for Directors in 2017: Executive Compensation

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Some companies have been getting ahead of the impending deadline with surprising results. A recent survey conducted by Mercer suggests that many companies have gotten a jump start on estimating their pay ratios and that such ratios might, on average, not be as high as previously reported. Of the more than 100 companies surveyed by Mercer, 60 percent had estimated their ratios, and the majority of those respondents had ratios of less than 200:1. This is a substantial dip from ratios of 335:1 reported in previous studies.

A company has to determine the following three things in calculating the pay ratio: (i) the “median employee,” (ii) the annual total compensation of its CEO and (iii) the annual total compensation of its “median employee.” All determinations of total compensation must be made in accordance with proxy disclosure rules. “Median employee” may also be determined using proxy disclosure rules on total compensation, but the use of those rules would likely be highly burdensome for a company, so the pay ratio rule allows for greater ease and flexibility by permitting companies to use an alternative measure in making this determination.

Companies will be required to disclose this pay ratio information for their first full fiscal years beginning on or after January 1, 2017. Consequently, companies with a December 31 fiscal year-end must present the pay ratio disclosures beginning with their Form 10-Ks or proxy statements filed in 2018. In light of the impending effectiveness of the rule, those companies that have not yet begun to take steps toward compliance would be well advised to begin making the necessary decisions and implementing the appropriate procedures to determine their pay ratios, as the rule requires ongoing disclosure. A company generally must identify its median employee once every three years and calculate total compensation for that

employee each year. However, once systems are in place for initial compliance, the process is likely to become routine.

The SEC has also proposed other rules that could affect executive compensation and the disclosure thereof. However, these rules are not finalized, and their future is uncertain, given the incoming administration.

View the full report [here](#).

## Categories

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