Pay for Performance Mandated SEC Proxy Disclosures – Role of PVP and CAP

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Key Takeaways

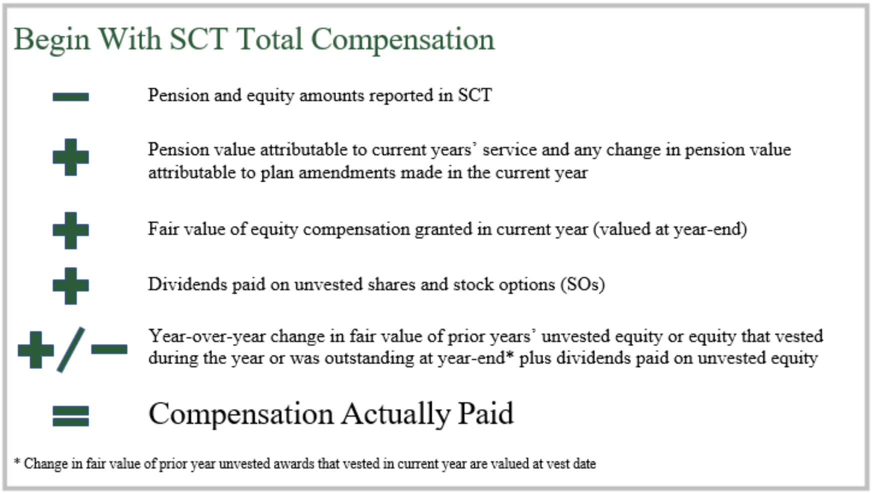
- *In 2022, the SEC implemented a new executive pay regulation/disclosure from Dodd-Frank of Pay versus Performance (PVP), which introduced a new definition of compensation, Compensation Actually Paid (CAP). According to the SEC, CAP was developed based on the same concept as "realizable pay" and intended to allow investors and others to evaluate whether executive compensation is aligned with total shareholder return (TSR).*
- *The PVP disclosure provides consistent, mandated comparisons of a company's performance and named executive officer (NEO) pay over a 5-year period to evaluate a company's relative CAP and TSR for shareholder alignment. As a result, PVP/CAP can be helpful in evaluating the TSR and performance sensitivity of the officer pay program.*
- *Several Pay Governance research studies demonstrate that PVP/CAP, not Summary Compensation Table (SCT) total compensation, are excellent tools for evaluating pay-for-performance alignment. Our studies show strong alignment of CAP and TSR — in both relative percentile rankings and year-over-year absolute percentage changes.*
- *The use of CAP, which is sensitive to financial and stock price fluctuations, is a significant improvement in evaluating pay for performance relative to using SCT total compensation, which is dominated by grant date equity values that are static and do not reflect stock price and/or company performance after the grant date.*
- *The recent SEC roundtable discussed evaluating PVP, and other proxy disclosure rules, including the potential elimination of PVP without replacement with a better pay-for-performance evaluation requirement like potential realizable pay. While investors at the roundtable generally supported PVP and wanted to keep it, some executive teams initially found it challenging to calculate.*
- *If PVP is eliminated, the mandated consistent quantitative comparisons of pay and performance would disappear and could lead to some investors and other interested parties pushing for new pay-for-performance disclosure rules to be implemented in the future.*

Introduction

The 2006 SEC and 2010 Dodd-Frank mandated executive pay proxy disclosure requirements significantly increased the amount of information that companies must disclose, and shareholders and other interested parties must navigate to determine a company's executive compensation program. The SEC's June 26, 2025, Roundtable gave voice to many of the positive and negative attributes to the current proxy disclosure regime, with near universal support for ensuring the disclosed information is more readily accessible and material to investors' understanding of the program. While many commentators expressed concerns about the complexity of the Pay versus Performance (PVP) disclosure rules and some cited the lack of interest in this disclosure, others welcomed the disclosure, as it provides investors with an analysis of outcome-based compensation compared to performance rather than the static view of compensation reported in the Summary Compensation Table (SCT). Indeed, the main reason Dodd-Frank mandated the PVP disclosure was the failure of the 2006 rules to provide investors with a true, consistent picture of pay and performance.

For Performance Comparisons, PVP Is Better than SCT Total Compensation

In making comparisons of pay to performance outcomes, PVP is more fit for purpose — via Compensation Actually Paid (CAP) — than the SCT total compensation. As the exhibit below shows, there are many adjustments to SCT total compensation to arrive at CAP. These include the replacement of the grant date fair value of equity awards granted during the year with "mark to market" and forecasted performance changes in the value of previously granted equity awards.



This required disclosure has helped external parties rely less on SCT total compensation in pay-for-performance comparisons, a purpose for which it is ill suited due to its static nature. For most companies, there are now 5 years of PVP data to show a company's compensation and performance over time. This helps alleviate some of the pay and performance disclosure "pressure" in more difficult performance years because there is already a standardized starting point for showing the impact of stock price and financial results on NEO pay over several years. The PVP disclosure rule has its challenges, but a number of suggestions provided in comment letters that have been submitted to the SEC, if adopted, would streamline the disclosure, reduce the reporting burden on companies and make it more user-friendly.

The Wall Street Journal published an article on August 5, 2025, on the PVP/CAP methodology that demonstrated to shareholders its superior pay-for-performance explanatory power relative to SCT total compensation.

Pay Governance's PVP/CAP-Related Research

Pay Governance's research, including the four Viewpoints cited below, have found CAP to be flawed but better to use than SCT total compensation for developing conclusions regarding pay-for-performance alignment.

Viewpoint	Key Findings / Observations	Publication
Demonstrating Pay and Performance Alignment: A Comparison of Compensation Actually Paid and Realizable Pay	Shareholders and companies may find the results of our comparison of CAP, as presented in the new PVP tables in 2023 proxy statements and realizable pay (RP) of interest for the following reasons: • There is no perfect solution for evaluating pay for performance. • SCT compensation values are not useful when measuring pay for performance but serve a valuable corporate governance purpose, primarily by showing Board/Compensation Committee intent when providing various compensation programs. • The new CAP disclosure provides a better understanding of pay for performance than SCT compensation, but the results can be distorted by the inclusion of certain mandated items such as equity awards granted prior to the performance measurement period. • RP generally provides a more rigorous valuation approach to matching the time period of the specific stock grants to the performance results of such awards. We believe RP can provide Compensation Committees with additional insights when evaluating pay for performance than tools based on the SCT or even PVP methodologies and should be a consideration in addressing this important corporate governance issue.	May 2023 Link
Utilizing Compensation Actually Paid to Evaluate Pay and Performance	Based on our analysis, there are several key takeaways that shareholders and companies may find of interest: • CAP is more fit for purpose than SCT disclosure for evaluating pay for performance as demonstrated by our analyses including: • A relative rank/percentile analysis against a company's peer group or industry-specific index provides the most useful evaluation of the relationship between CAP and company total shareholder return (TSR) performance. • The number of situations where a company's compensation percentile rank significantly exceeds its TSR percentile rank drops dramatically when actual performance is considered when calculating compensation.	June 2023 Link

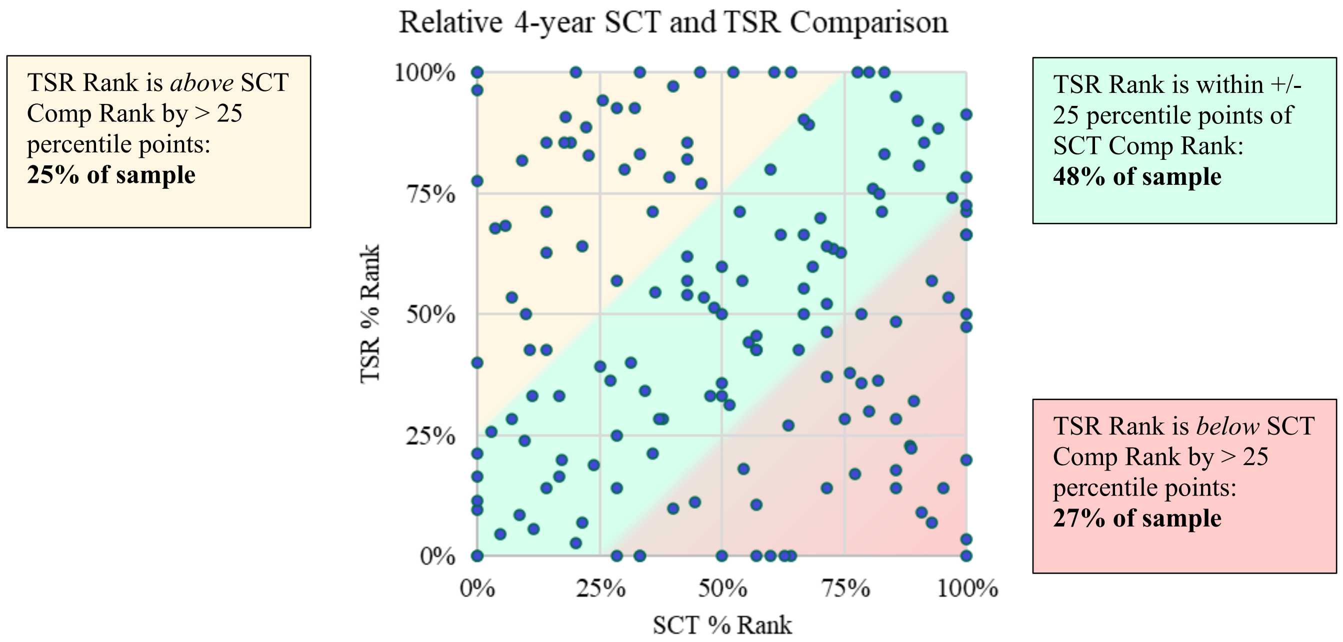
Viewpoint	Key Findings / Observations	Publication
	• Significant differentials in relative TSR and CAP rank may help identify competitive deficits/surpluses in total pay opportunities, competitive discrepancies with incentive design features, potential issues with performance metric rigor or alignment with shareholder value, etc.	
Does Compensation Actually Paid Align with Total Shareholder Return?	• There is a strong correlation (.56) between relative TSR and CAP but not between TSR and SCT Compensation (.08) • A relative rank analysis against a company's peer group or industry- and size-specific index provides the most useful evaluation of the relationship between CAP and company TSR • A disconnect between relative CAP and TSR may be traceable to competitive deficits/ surpluses in executive compensation strategy and policies, which may need to be addressed	August 2024 Link
Demonstrating Alignment of CEO Pay and Performance	• Based on our research, there is a very strong correlation between CAP and TSR across the S&P 500, and much can be learned from this disclosure. • However, the PVP rules have several shortcomings that require additional analysis to gain a complete understanding of just how aligned compensation is with performance, as discussed below. • We believe that RP provides more accurate insights, however, the gathering of this information may be more time intensive than using the CAP amounts reported by the company and its peers in the PVP tables. • In its final rules, the SEC acknowledged the importance RP played in shaping the new PVP disclosure requirement: *"We believe that the adopted approach in the final rules is similar to the concept of realizable pay, recommended by some commenters, as it reflects an attempt to measure the change in value of an executive's pay package after the grant date, as performance outcomes are experienced."*[1]	February 2025 Link

Graphical Assessments

From our July 2024 Viewpoint, **Figure 1** below is based on 159 S&P 500 companies and plots each one based on their difference in percentile ranking of 4-year cumulative TSR and 4-year cumulative SCT compensation. The three-shaded areas represent companies where relative TSR performance and SCT compensation percentile ranking are within 25 percentile points (green zone), TSR percentile ranking exceeds SCT compensation ranking by > 25 percentile points (yellow zone), and TSR percentile ranking is below SCT compensation ranking by > 25 percentile points (red zone).

- The correlation between TSR rank and SCT compensation rank is very low (0.08). *This is a strong indication that using SCT compensation for evaluating pay for performance has limited statistical and governance utility.*
- As shown, 48% of the companies have a TSR rank that is within +/- 25 percentile points of the SCT compensation rank (green zone). While this might suggest a significant minority of companies have aligned SCT pay and performance, the low correlation noted above would indicate this outcome is random, rather than an indication of alignment.
- The remaining 52% of the companies fall in the yellow or red zones, where the TSR rank either exceeds or is lower than the SCT compensation rank by > 25 percentile points, which potentially signals a possible disconnect between pay and performance or is just another random outcome.

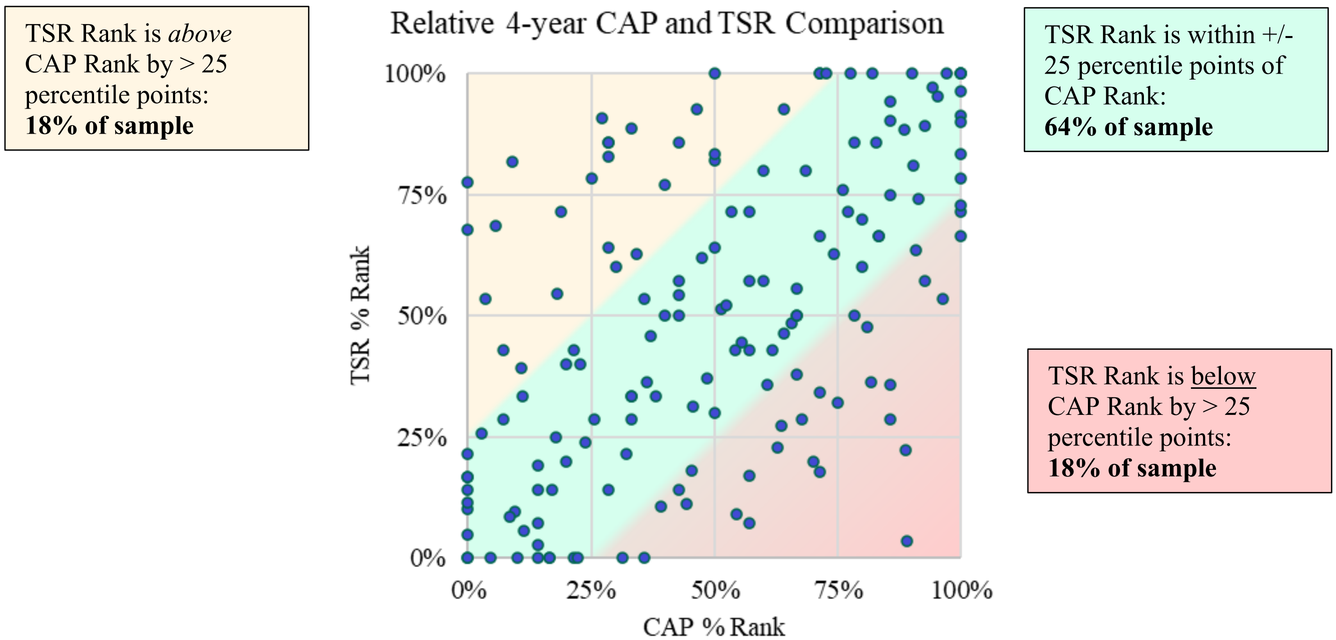
Figure 1: Relative 4-year Cumulative SCT compensation versus 4-year Cumulative TSR (N=159 S&P 500 Companies)[2]



When the same analysis is performed using CAP rather than SCT total compensation, the alignment of pay and performance improves dramatically as shown in Figure 2 below.

- Correlation between TSR rank and CAP rank is high (0.56).
- *The percentage of companies in the green zone increases from 48% to 64%.*

Figure 2: Relative 4-year Cumulative CAP versus 4-year Cumulative TSR (N = 159 S&P 500 Companies)[1]



Conclusion

The PVP/CAP disclosure provides a consistent approach for comparing NEO pay and performance over time, on an absolute basis and relative to peers. Companies should continue to evaluate and apply the most relevant perspectives, such as multi-year incentive payout history, realizable pay and actual/realized pay compared to TSR/primary financial metrics, in the design and analysis of the pay and performance structure and resulting outcomes. Companies also need to ensure the CD&A clearly summarizes these pay-for-performance perspectives in the context of the industry as well as company-specific challenges and opportunities that explain the pay decisions made for the most recently completed performance periods to provide investors a complete picture.

General questions about this Viewpoint can be directed to Ira Kay (ira.kay@paygovernance.com) or John Sinkular (john.sinkular@paygovernance.com).

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[1] The U.S. Securities and Exchange Commission. Final Rule: Pay Versus Performance. September 8, 2022. https://www.federalregister.gov/documents/2022/09/08/2022-18771/pay-versus-performance

[2] This study includes data provided to us by ESGAUGE of 389 S&P 500 companies that filed PVP disclosures as of May 31, 2023. The sample was divided into 11 industry sectors which were further refined by removing companies with revenues in the bottom and top quartiles within each sector. Results of the full sample were consistent with the data utilized by the presented figures and tables.