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March 4, 2022

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

submitted via the web through https://www.sec.gov/cgi-bin/ruling-comments

re: Comments on Proposed Rule: Pay Versus Performance [Release No. 34-94074; File No. S7-07-15]

Dear Ms. Countryman:

I appreciate the opportunity to comment on the Securities and Exchange Commission's proposal to implement Section 953(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act").

Below I respond to certain of the numbered requests for comment in the proposing release.

Request for comment 17

Detailed tagging using Inline XBRL of numerical values reported in the tables required by § 22.402, along with block-text tagging of the relationship among the measures, the footnote disclosure of deductions and additions used to determine executive compensation actually paid, and the footnote disclosure regarding vesting date valuation assumptions would be highly useful to me. I believe other academic researchers also would find this tagging highly useful.

Researchers and investors conducting analyses of compensation information cannot access large amounts of these data as it is actually filed unless the disclosures are structured and machine readable. The iXBRL standard enables a single document to provide both human-readable and structured, machine-readable data. With the associated viewer, it additionally provides fact properties that precisely define the tagged items.

Absent structured, machine-readable filings, researchers and investors must rely on commercial data aggregators' products. It is appropriate to ask the question: "do you know how the financial information provided by third parties compares with the financial statements [the] company filed with the Commission?"[1]

[1] This question was asked by Julie A. Erhardt, Deputy Chief Accountant, Office of the Chief Accountant in her remarks at the 2016 AICPA National Conference on Current SEC and PCAOB Developments (https://www.sec.gov/news/speech/erhardt-2016-aicpa.html).

Research co-authors and I have conducted into discrepancies between companies' accounting data collected from commercial data aggregators and like data assembled from XBRL filings reveal discrepancies between these data sources that are large enough to affect both trading decisions and inferences drawn from asset pricing tests.[2] On the basis of this finding, I think it is reasonable to expect that similarly large differences exist between what is filed with the Commission under § 22.402 and what is presented in data aggregators' products. I therefore encourage Inline XBRL tagging.

Request for comment 20

Comparability of items in the Summary Compensation Table § 229.402(c) with related items computed or disclosed in the financial statements (specifically, those describe in ASC 718) is enhanced when the same underlying valuation guidance is used to prepare both.

To promote comparability, I suggest that the valuation of stock options at the vesting date in proposed § 22.402(v) be based on the guidance in ASC 718 and SAB 107, excepting that the measurement date is changed from the grant date to the vesting date.

Likewise, comparability of items in § 229.402(c) with items in the proposed § 22.402(v) is enhanced when the same assumptions are used whenever this is economically sensible. Using the same assumptions on expected stock price volatility and expected dividends is economically sensible because the underlying stock is the same. It is also economically sensible to draw interest rates from the same yield curve.

It is not economically sensible to suppose that assumptions serving to characterize the PEO's and NEOs' future decisions to exercise their options—such as the expected time exercise (as is typical in Black–Scholes–Merton models) or the expected market-to-strike ratio at which exercise takes place (as in some lattice models)—are similar at the grant date and the vesting date. This is because (i) the time remaining to expiration is obviously shorter at the vesting date than at the grant date and (ii) the moneyness at the vesting date may be very different than the moneyness at the grant date.

Requests for comment 18 and 22

It is desirable to present compensation actually paid in the reporting year alongside the TSR corresponding to the period over which this compensation was earned. Because compensation arrangements vary across companies and over time, a drawback of any approach that fixes TSR at a single value (e.g., a five-year cumulative and rolling average), will not correspond the period over which compensation was earned for at least some companies. Also, the compensation actually paid in a year often comes from multiple components of the PEO's total compensation package such as bonus plans, stock awards, and option awards from prior years.

Here is an alternative approach that would mitigate the misalignment of compensation actually paid with the associated financial performance and still permit comparability across registrants and over time:

[2] See http://dx.doi.org/10.2139/ssrn.3781979.

- Associate with each component of the PEO's compensation actually paid a requisite service period (as defined in ASC 718).

- Compute the TSR in columns (f) and (g) of the proposed § 22.402(v) table in over the requisite service period of the component of the PEO's compensation having the largest dollar value.

  The notion of the requisite service period can be extended to forms of compensation not covered by ASC 718. For instance, the analog of the requisite service period for annual salary is one year; for multi-year cash bonus award plans, the analog is the plan period.

  In many cases, the component of the PEO's compensation having the largest dollar value will be a tranche of options granted in a previous year that vests in the reporting year.

  In many cases, the NEOs' compensation consists of the same components as the PEO's in similar proportions, although the amounts provided to individual NEOs are smaller.

  This method of specifying the TSR has the advantages that it is objectively determined and adapted to the vesting period that is most prominent in the year compensation is actually paid.

Request for comment 22

The Dodd-Frank Wall Street Reform and Consumer Protection Act §953(a) requires that corporations provide "information that shows the relationship between executive compensation actually paid and the financial performance of the issuer, taking into account any change in the value of the shares of stock and dividends of the issuer and any distributions." This disclosure mandate necessitates careful consideration of the dilutive effects of compensation, particularly when equity-based compensation has the potential to be highly dilutive, as in the case of very large stock option grants.[3] A remarkable recent example of this is the compensation of Tesla's CEO, Elon Musk. The impact of such highly dilutive compensation practices is analyzed in research co-authors and I have conducted, which is available here: http://dx.doi.org/10.2139/ssrn.3014149

Please email me at sjh11@psu.edu if can provide further information.

Yours truly,

Steven Huddart
Smeal Chair Professor of Accounting and
Senior Associate Dean for Faculty and Research

[3] Dilution will be of minor importance for many corporations where the fair value of equity compensation held by the PEO and NEOs is a small fraction of the market value of the corporation's equity.