WorldatWork. The Total Rewards Association™

July 6, 2015

Via email to rule-comments@sec.gov

Securities and Exchange Commission
Attn: Brent J. Fields, Secretary
100 F Street, NE
Washington, D.C. 20549-1090

RE: Pay vs. Performance (File Number S7-07-15)

Dear Secretary Fields:

WorldatWork respectfully submits these comments regarding the Securities and Exchange Commission's (the "Commission") proposed rulemaking (the "Proposal") as required by Section 953(a) of the Dodd-Frank Act. Section 953(a) added Section 14(i) to the Exchange Act, which directs the Commission to adopt rules requiring registrants to disclose in any proxy or consent solicitation material for an annual meeting of shareholders a clear description of any compensation required to be disclosed by the issuer under Item 402 of Regulation S-K (or any successor thereto), including information that shows the relationship between executive compensation actually paid and the financial performance of the registrant, taking into account any change in the value of the shares of stock and dividends of the registrant and any distributions.

WorldatWork Background Information
WorldatWork is a nonprofit human resources association for professionals and organizations focused on compensation, benefits, work-life effectiveness and total rewards — strategies to attract, motivate, retain and engage a productive workforce. WorldatWork and its affiliates provide comprehensive education, certification, research, advocacy and community, enhancing careers of professionals and, ultimately, achieving better results for the organizations they serve. WorldatWork has more than 70,000 members and subscribers worldwide. Founded in 1955, WorldatWork is affiliated with more than 70 local human resources associations and has offices in Scottsdale, Ariz., and Washington, D.C.

WorldatWork members believe there is a powerful exchange relationship between employer and employee, as demonstrated through the WorldatWork Total Rewards Model. Total rewards involves the integration of six key elements that effectively attract, motivate, retain and engage the talent required to achieve desired organizational results. The six key elements are: compensation, benefits, work-life effectiveness, recognition, performance management and talent development.

The model recognizes that total rewards operates in the context of overall business and human resources strategies, as well as organizational culture and a complex external environment. Within this context, an employer leverages the six total rewards elements to offer and align a value proposition that benefits the organization and the employee. An effective total rewards strategy results in satisfied, engaged and productive employees, who in turn create desired business performance and results.

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Comments on Pay vs. Performance Notice of Proposed Rulemaking, File Number S7-07-15
WorldatWork appreciates the Commission's attempt and intent to align executive pay with company performance as directed by the Dodd-Frank Act. We agree pay and performance alignment is critical to effective executive compensation programs and good governance. The Commission's objectives for alignment of pay and performance, pay transparency and enhanced disclosure are praiseworthy, but the Proposal, as written, does not achieve these objectives. It may even provide misleading information to investors and shareholders and is overly burdensome for companies.

WorldatWork promotes principled pay practices and believes that business strategies and executive compensation program design are unique and should be tailored to the specific needs of individual organizations. Successfully aligning pay and performance is not achieved through a one-size-fits-all approach; rather, it benefits from flexibility in design. Therefore, we strongly believe that the Proposal is too prescriptive, simplistic and rigid of a performance comparison to successfully achieve its intent. Instead, the Commission should adopt a principles-based approach and give companies the flexibility to choose a disclosure approach that allows them to more accurately communicate their unique pay-for-performance story.

While WorldatWork strongly supports pay-for-performance initiatives voluntarily created within an organizational executive pay program, our association is very concerned that the Commission's Proposal will jeopardize the integrity of these initiatives. The following are our concerns with the Proposal as it is written.

Overemphasis of Cumulative Total Shareholder Return ("TSR") as a Sole Metric
WorldatWork is concerned with the Proposal's use of cumulative TSR as the only performance measure for which to judge compensation alignment. Some companies do not use TSR. Other companies may use TSR, but in conjunction with other performance measures that incent and reward performance. [1] TSR measures stock performance, not business performance and executive pay may be correlated with a company's performance measure(s) rather than TSR. Using only TSR or a one-size-fits-all standard of calculating a company's and its peers' performance may not fairly present the link between performance and compensation for an individual company or all company comparisons. Additionally, the sole use of TSR as a metric may not allow certain companies to tell their story, as TSR may not be relative to their business model. The tabular disclosure prescribed by the Proposal and reliant on TSR as the sole performance measure is likely to be the basis for proxy adviser, press and activist analyses, while explanatory disclosures are often ignored.

WorldatWork is concerned with possible unintended consequences that could result in the use of TSR as a sole measurement for pay alignment, such as, but not limited to:

1. An excessive focus on TSR may encourage companies and executives to take actions that pay off in the short term to the detriment of long-term performance. This presents a real susceptibility to "gaming" TSR, or adopting strategies for boosting stock prices in the short term (e.g., increasing debt, cutting research and development, engaging in stock buy-backs) that may be detrimental to positive long-term financial performance.

2. Using TSR may pressure compensation designers to use this metric in their incentive plans, which may not be consistent with an organization's business objectives. TSR measures only

stock performance, not business performance, which can be a different set of goals for many organizations.

Stock Option Valuation Unnecessarily Complex

Intrinsic valuation of stock options is better, cheaper and easier than the more complex, costly and burdensome revised fair-value measurement the Proposal requires. Using an option pricing valuation model requires extra effort to recalculate a value as of vesting date. Companies currently only calculate a value for the grant date. Valuing stock options granted during a specified period and using their intrinsic value would give shareholders an assessment of changes in realizable pay based upon real movement in stock price but not changes in other factors that may affect the Black-Scholes or other option pricing valuation model value.

Misalignment Due to Timing Disconnects Between Pay and Performance

WorldatWork is concerned with the validity of the Proposal's presumption that there is a consistent correlation between pay and TSR performance on a year-to-year basis. Performance periods and vesting periods are varied, and the performance cycles that vest in any given year typically are based on time periods that will differ from the TSR period to which the payment will correlate. The Proposal's erroneous presumption will result in a serious mismatch between multiple measurement periods used for various long-term performance awards and the TSR measurement period. Re-evaluation of equity awards likely will be composed of tranches of different awards that are granted in different years (likely to span a 3- to 5-year period) that happen to vest in a single year. Additionally, the stock price used in TSR and the stock price used on date of vesting for equity awards could be materially different. These timing disconnects will contribute to confusion about Board of Directors thinking and actions on pay and performance alignment rather than increasing clarity.

The timing mismatches also may provide inaccurate and/or misleading pay-for-performance information to shareholders and cause misleading cross-company comparisons. It also could result in significant effort explaining the variances between mandated disclosure and actual pay-for-performance results of a specific company whereas the Proposal requires companies to provide a clear description of the relationship (as represented in the table). Clearly, neither the Commission nor the legislators who wrote the law intended these inaccuracies in the Proposal.

If the Commission favors a prescriptive approach to allow comparisons across companies, the bar needs to be set higher in defining pay and performance and matching periods during which both are measured. For example, TSR for one year should be compared to pay for that one year and pay for a year should not include pay earned in prior years.

Pension Valuation Needs Clarification

We agree with the Commission's approach toward pension valuation in the Proposal, but believe that the Commission should take a deeper look and provide further clarification. The current Summary Compensation Table (SCT) value (change in actuarial present value) includes amounts unrelated to performance, the intent of compensation committees and the actual pension benefit the executive might receive at retirement. By limiting the definition of actual pay to changes in the present value of pensions that are attributable to service over that year, the Commission has taken a positive step to exclude "noise" associated with changes in interest rates, mortality, age and other actuarial assumptions. However, the Commission should take this further and adopt this approach for the SCT as well, subject to the following clarification.

To avoid uncertainty in determining service-based accruals, the Proposal should clarify what is meant by "actuarially determined service cost." The Proposal's reference of the required use of future salary increases to estimate service cost is confusing in that it squarely contradicts subsequent language in the proposed rule (i.e., that it is not expected that the new pension disclosures would require collection of significant new data or reveal significant new information to shareholders, and that the pension's annual service cost can be calculated based on information reported in the Pension Benefits Table [PBT]).

Under current rules, the increases in pension value that are reflected in the SCT and PBT do not use this. Rather, they are calculated based on the difference between beginning-of-year and end-of-year net present values of accumulated pension benefits. Thus, if a company were required to use the referenced definition, the disclosure would require significant new data, reveal significant new information to shareholders and could not be calculated based on information reported in the PBT. We recommend elimination of any reference to the new definition, and a clarification that what is intended to be measured is simply the portion of the currently reported change in pension values that is attributable to an additional year of service. Additionally, the Proposal should be further amended to list the specific factors to be included in determining the pension impact of an additional year of service.

Disclosure Beyond one CEO Is Unnecessary and Burdensome
Including one CEO in the disclosure is enough. Investors as well as proxy advisers are primarily interested in CEO pay because he/she typically sets the tone for the entire organization. Including additional data when there are multiple CEOs and including any other NEO data is not helpful and would be even further burdensome. It is complicated for companies to work through the calculation for the NEOs, and including them would result in longer and more complex disclosures. This is unnecessary and would create further confusion as companies try to explain their nuanced data. The expected result would be distorted data that detracts from the Proposal's intent. Limiting the disclosure to one CEO would greatly reduce the compliance burden and allow for a simpler and more targeted explanation of the Board's thinking.

Three Years of Data Is Enough
WorldatWork advocates that three years of compensation and performance data is sufficient, and five years further increases the compliance burden. The SCT currently used by Compensation Committees shows three years of compensation data. Plus, supplemental disclosure of realized and realizable pay voluntarily disclosed today incorporates only three years of compensation and performance data. Building out the new table to reflect five years will be burdensome and costly, and is not necessary for the purposes of this disclosure requirement.

Proposal Goes Beyond Dodd-Frank Legislation
WorldatWork is concerned with the Commission's direction in its attempt to accomplish the objectives set forth in the Dodd-Frank Act. In addition to concerns described in this letter, we are concerned that the Commission has included certain measurements and definitions that are not included in the legislation. We believe that the Commission should reconsider or revise the inclusion of the following provisions not required in the guiding Dodd-Frank Act:

- The use of TSR as the sole measure of a company's performance;
- The presentation of any peer group financial information; and
- The definition of equity compensation actually paid as the value of equity compensation determined at the time of vesting.

Conclusion
WorldatWork appreciates the opportunity to provide comments on the Security and Exchange Commission's Pay vs. Performance (File Number S7-07-15) notice of proposed rulemaking. We have expressed serious concerns that the Proposal as written will make providing a clear description of the relationship between actual compensation paid and company performance more challenging, if not completely inaccurate. The Commission's current approach likely will mislead investors as to pay-for-performance alignment of company's compensation programs and business performance. This counters Dodd-Frank and the Commission's objectives and may lead to companies adopting compensation incentive measures and/or programs that may not be best for driving business strategy and results simply to comply with disclosure requirements. The Proposal will unnecessarily add to the cost and time of preparing disclosures. The Proposal's attempts to provide comparability across companies is ineffective and fails to recognize differences in business strategies. Companies using metrics other than TSR may have a harder time accurately telling their unique pay-for-performance story without additional effort and explanation.

On behalf of WorldatWork's more than 70,000 members and subscribers, the association looks forward to working with the Commission on this issue and on future endeavors. Please do not hesitate to contact me at [redacted] or [redacted] for further information.

Sincerely,

Cara W. Welch

Cara Woodson Welch, Esq.
Vice President of External Affairs and Practice Leadership

[1] While TSR might be a good starting point because investors primarily use TSR to judge company performance and many companies already use TSR in some form, not all do. Those companies that currently use TSR as a measure overwhelmingly use TSR in conjunction with other measurements; as illustrated in the following findings from the executive rewards' community:

> **"Prevalence of relative TSR awards among the Top 250 companies has increased by 71% in the last five years (from 29% of the Top 250 companies in 2010 to 49% in 2014). However, companies that grant relative TSR awards tend to diversify their performance measures, with 71% of companies using relative TSR in combination with another financial performance metric."**
> Frederic W. Cook & Co. Inc. 2014. Relative Total Shareholder Return Performance Award Report. New York.
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> **"Among companies using performance-based LTIs, most (53%) use a mix of TSR and financial measures in their equity LTI plans; others (28%) use financial measures only; and a smaller minority (15%) use TSR only.**
> Farient Advisors LLC. 2013. Performance Metrics and Their Link to Value. New York.
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> **"Of the 27% of *Fortune 500* companies already disclosing pay for performance, 68% use TSR as their performance metric in their pay-for-performance analysis, with 39% using other metrics, either exclusively or in concert with TSR."**
> Seelig, Steve, Puneed Aroroa and Bill Kalten. 2015. SEC's Proposed Pay-for-Performance Disclosure Rules Will Require Companies to Perform New Pay Calculations. Towers Watson's *Executive Pay Matters*. April 29.
>
> **"TSR and EPS are also prevalent long-term incentive metrics, used by 42% and 36% of companies, respectively. In our study, most companies with performance-based LTI plans use two metrics."**
> Biagi, Michael, Michael Bonner, Lauren Peek and Melissa Burek. 2015. Changing Practices in Executive Compensation: Long-Term Incentive Plan Design. Compensation Advisory Partners' *CapFlash*. Feb. 12.
>
> **"Based on a survey we conducted in early 2015, 57% of companies use some form of a relative TSR award design."**
> Outlaw, David and Fan Wang. 2015. What You Need to Know About the SEC Pay-for-Performance Proposal. Equity Methods' blog post. May 14.
>
> **"Relative TSR continues to be the most popular long-term performance metric, appearing in 57.7% of 2013 plans versus 48.0% of 2011 plans."**
> Equilar. 2014. Measuring Long-Term Performance: An Analysis of S&P 500 Equity Incentive Plan Metrics. Redwood City, Calif.