Does It Pay to Tell Investors Extra Compensation Details?

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Many U.S. corporate directors are grumbling about complex new federal rules requiring more disclosure of executive pay, perquisites and retirement benefits. Yet a surprising number of major corporations are going beyond the requirements, offering investors additional details about compensation, in the name of improved transparency.

Nearly 30% of proxy statements filed so far this year contain supplemental pay information, estimates Mark Borges, a principal at Mercer Human Resource Consulting. **El Paso** Corp., **Intel** Corp., **Corning** Inc., **EMC** Corp. and **Pfizer** Inc. are among those disclosing more than the Securities and Exchange Commission requires.

The most common extra details: alternate summary compensation tables that typically include the initial value of 2006 equity grants; numerical performance targets; and potential conflicts of interest involving boards' pay consultants.

Though such moves are aimed at staving off investor complaints stemming from the SEC's confusing proxy rules, they could backfire by sowing suspicion. Enhanced disclosures "may not ward off public criticism about excessive CEO pay," warns Connecticut Treasurer Denise Nappier, who oversees a $24 billion public-employee pension fund.

That is the case at El Paso. The Houston natural-gas producer and pipeline concern offers investors a one-page profile for each top officer featuring a photo, a biography, the initial value of 2006 equity grants and related pay highlights. Chief Executive Douglas L. Foshee wanted "to be as transparent as possible," explains Bruce Connery, a vice president. "It's meant to supplement, not take the place of, what's [required] in the proxy."

Lucian Bebchuk, a Harvard law professor and El Paso investor who has clashed with the board, isn't impressed. He says the profiles don't comply with the SEC rules -- leaving out, for instance, total compensation -- and are more prominently placed than they should be.

In recent proxy statements, some companies tell more than required about executive pay. Examples of items disclosed:

Last year, Mr. Bebchuk sought to revise El Paso's corporate bylaws to require more disclosure about executive pensions. His proposed amendment received nearly 49% of the votes cast. Mr. Connery says the vote didn't prompt this year's additional disclosures.

Other businesses are exceeding the requirements by disclosing specific performance targets -- such as increasing revenue by 10% or recording earnings of $2 a share -- for executive bonuses or equity grants. The SEC allows companies to conceal such targets for competitive reasons, and nearly half of 100 big companies didn't disclose them, according to an analysis of 2007 proxies by consultants Watson Wyatt Worldwide.

EMC discloses some -- but not all -- of its targets. The Hopkinton, Mass., technology company says top officers earned their 2006 targeted bonuses because EMC achieved its earnings goal of 63 cents a share, excluding expenses for stock options. For 2007 targeted bonuses, EMC must increase per-share earnings by 18.5%, increase revenue by a set amount and boost free cash flow.

But EMC doesn't disclose the specific targets for executives to make money from restricted shares tied to performance hurdles. The proxy says only that the shares will start to vest in 2009 if EMC reaches "a threshold cumulative EPS goal" between 2006 and 2008, without revealing the goal.

Michael McCauley, corporate-governance director for Florida's State Board of Administration, applauds the specific disclosure about bonus targets. But he says that omitting the targets for the restricted shares means shareholders don't understand "what performance is being incentivized." The Florida board manages about $135 billion of public-employee pension assets and owns about 9.8 million EMC shares.

Divulging the earnings target for the restricted shares would go beyond what EMC has told investors and might cause "competitive harm," says Michael Gallant, an EMC spokesman.

The role played by board pay advisers represents another way that some companies are going the extra distance. In October, Ms. Nappier and officials of 12 other large pension funds wrote 25 big businesses seeking information about whether compensation consultants hired by directors had conflicts of interest. Activists fear a consulting firm won't give the board impartial advice about pay if the firm also advises management. The new disclosure rules don't address such conflicts.

Most of the 25 recipients, including Pfizer, agreed to disclose any additional work that the consultants do for the company. Pfizer's latest proxy goes further. It reveals that Frederic W. Cook & Co. was paid $184,555 for advising its board's compensation committee last year. The proxy also says Cook provided only one other item for the giant drug maker -- an executive-compensation survey that cost less than $5,000. Pfizer's 2006 proxy contained a similar description of that annual survey.

The company's latest proxy exceeds the SEC rules in other ways, such as specifying the value of equity grants made so far in 2007 and executives' target bonuses for this year. Pfizer did "a very good job on disclosure" this year, says Richard Ferlauto, director of pension investment policy for the American Federation of State, County and Municipal Employees.

Mr. Ferlauto was among the activists who last year criticized the compensation package for then-Chief Executive Henry "Hank" McKinnell. Ironically, the activists took advantage of Pfizer's voluntary proxy disclosure that he could have pocketed a lump sum of $83 million if he had retired at the end of 2005. Mr. McKinnell unexpectedly quit as CEO in July.