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'Plain-English' rule to aid in executive pay transparency

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The latest salvo in the effort to improve corporate ethics and rein in excessive executive pay revolves around "plain-English" requirements for publicly traded companies.

The goal of the new rules -- some of which are being formulated by the **U.S. Securities & Exchange Commission** -- is to force companies to clearly explain in financial filings and proxy statements the salaries, bonuses and stock options granted to chief executives and other senior management.

The planned federal rules will require companies to show total compensation levels for senior executives; dollar value of stock-based awards; outstanding equity awards and options; and more details on severance packages.

For example, the 50 highest-paid chief executives at Arizona-based public companies received total compensation of about $127 million, but salaries and bonuses accounted for only 52 percent of that total. Stock options contributed another $37 million, calculated at a modest 5 percent gain. Restricted stock awards added another $14.5 million to the pot.

The question is whether new and expanded plain-English rules actually will work and better inform shareholders and others of what the corporate honchos are taking home.

"To some extent, it will always be difficult to make this easily understandable since it is a complex area," said Thomas LaWer, a partner with the Phoenix law firm **Greenberg Traurig** and an expert in public company financials. "The best we can hope for is full disclosure so at least all of the information is available."

LaWer said new SEC plain-English requirements for proxy statements will help provide stockholders with more information about the pay and bonuses of chief executives and other top company officers. But the power in determining executive compensation still will lie with boards of directors, he stressed.

Changes in the election and makeup of boards, including the addition of more independent directors (those not otherwise affiliated with the company), could lead to a major shift in CEO pay and bonuses, according to financial experts.

"They may have an effect on CEO compensation because directors could get voted out of office if the significant shareholders do not agree with the compensation decisions of the directors in respect to CEO pay," LaWer said.

The question of CEO pay often heats up on the heels of corporate scandals and tales of high salaries, bonuses and perks.

The latest episode involves retiring **Exxon Mobil Corp.** Chairman Lee Raymond, whose severance package could total $400 million. The Texas-based oil giant raked in a record $36 billion profit for 2005 and an $8.4 billion first-quarter 2006 profit. That net income and Raymond's hefty retirement package came in the midst of high gasoline prices and retail pump levels above $3 a gallon.

Lisa Von Bargan, a Phoenix-based international business consultant, said it can benefit a company to use plain English to help keep stockholders, rank and file employees, and management informed of overall performance, bonuses and what determines senior management pay, options and other perks.

"The goal is not to falsely build hope or dissuade an employee," Bargan said, "but to clearly communicate the risk involved with such investments and how executives of the corporation might be benefiting from options that are not made available to general employees."

Bargan is president and founder of Phoenix-based **Beyond Implementation Inc.**

The SEC gave preliminary approval to the compensation disclosure and plain-English rules earlier this year and has been accepting public comments on the matter. Final approval of the new pay disclosure rules is expected later this year.

Last year, the average compensation for the chief executive of a Standard & Poor's 500 company was $11.8 million, according to the Corporate Library and the AFL-CIO labor union. American CEOs make more than 400 times rank-and-file employees, according to a Stanford University study.

That is a marked increased from a few decades ago. Back then, U.S. executive pay tended to be substantially lower than those in foreign markets, including Japan and Europe.

LaWer said the United States has more regulations related to CEO compensation than other countries, but that in part can be attributed to the fact that those other countries do not have a history of large bonuses or salaries.

"Other countries have lower CEO pay mainly due to custom," LaWer said.