Pay Governance

SEC Comment Letter Review Signals Strong Investor Support for Preserving Executive Compensation and Governance Disclosure Requirements

WRITTEN BY | Annie Chen and Mike Kesner

KEY TAKEAWAYS

1. Large institutional investor respondents have not weighed in
The largest asset managers have not submitted comment letters, and it is unclear if they support or oppose the SEC proposal.

2. Reform should focus on usability
Commenters supported better dashboards, standardization, XBRL tagging, improved visuals, clearer metrics, and comparability.

3. Broad rollbacks face resistance
The most consistent message was opposition to $2B NAF status, exemption of 80%+ of issuers, and a blanket five-year IPO on ramp.

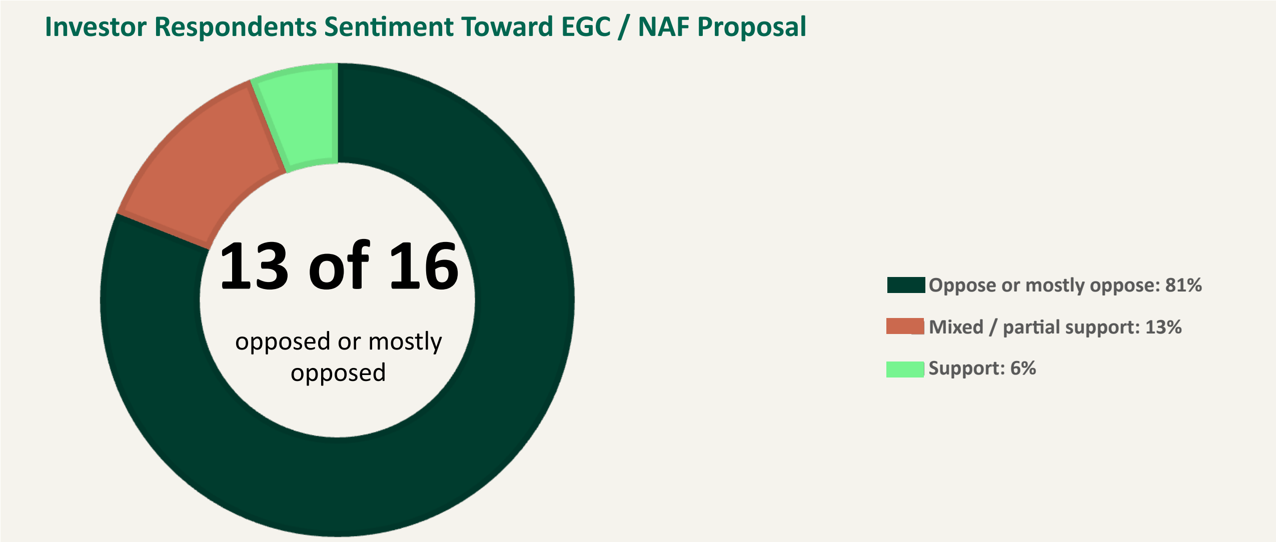
4. Investor respondents value transparency
Investor respondents continue to use CD&A, Pay Versus Performance, CEO Pay Ratio, Say-on-Pay, perquisite disclosure, and auditor attestation for governance and voting decisions.

Executive Summary

The SEC's proposed amendments to expand Non-Accelerated Filer (NAF) status and broaden Emerging Growth Company (EGC) accommodations and SEC Executive Compensation Disclosure Roundtable (Roundtable) generated very few comment letters from investors. Notably absent from the comment process were many of the world's largest index fund managers and institutional investors creating uncertainty regarding where some of the largest holders of U.S. equities ultimately stand on the SEC's proposals.

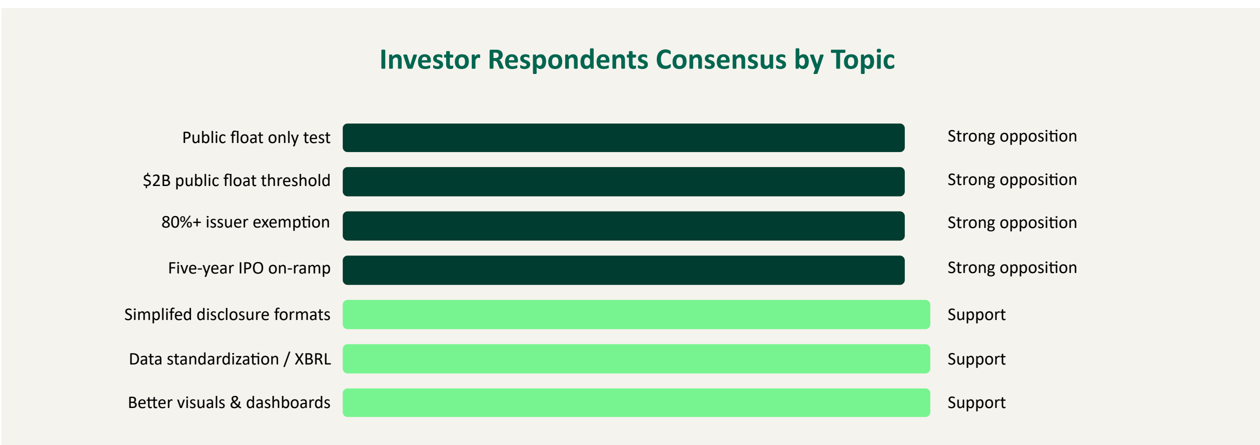
The few comment letters that were provided by institutional investor respondents were remarkably consistent. Across both the EGC proposal comment letters and the Roundtable submissions investor respondents overwhelmingly supported maintaining existing executive compensation disclosure requirements, governance protections, and internal control standards.

Opposition extended beyond traditional governance activists. Public pension funds, asset managers, labor-affiliated investors, faith-based investors, and international institutional investors largely converged around the view that transparency should be improved, not reduced.



Key Findings at a Glance

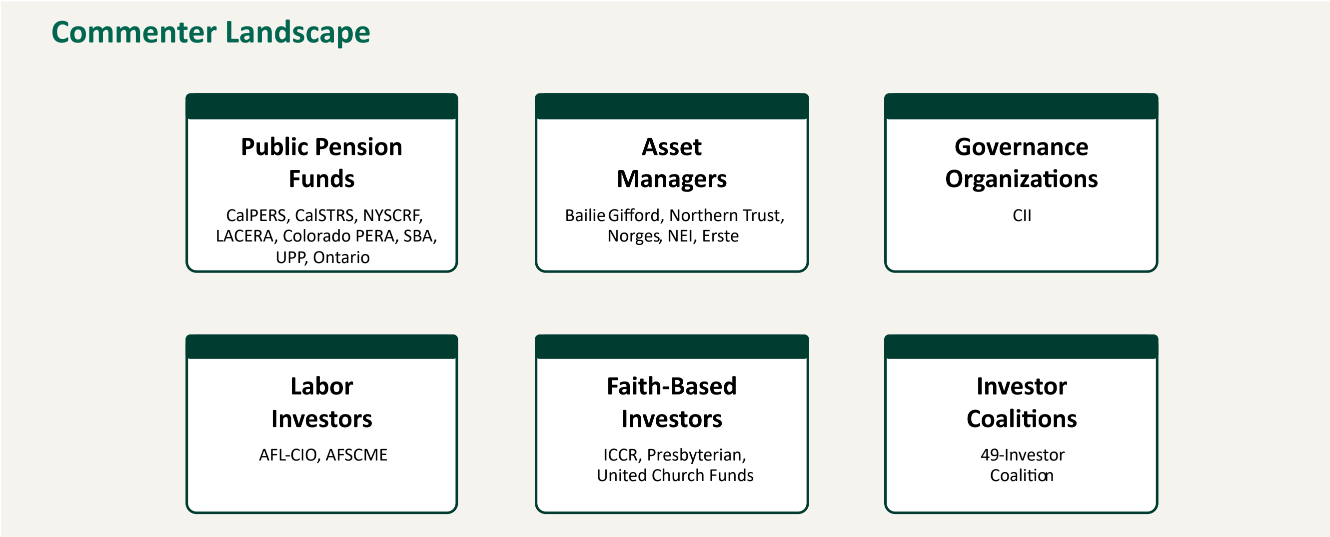
The key theme across both the EGC (n=16) and Roundtable (n=10) comment letters was not a rejection of simplification. Rather, participating investor respondents generally supported simplifying and modernizing disclosure while preserving the investor protections that underpin executive compensation oversight.



Theme 1: Investor Respondents Prefer Simplification, Not Deregulation

One of the clearest messages from both EGC and Roundtable letters was that investor respondents generally support simplifying executive compensation disclosure but not eliminating disclosure.

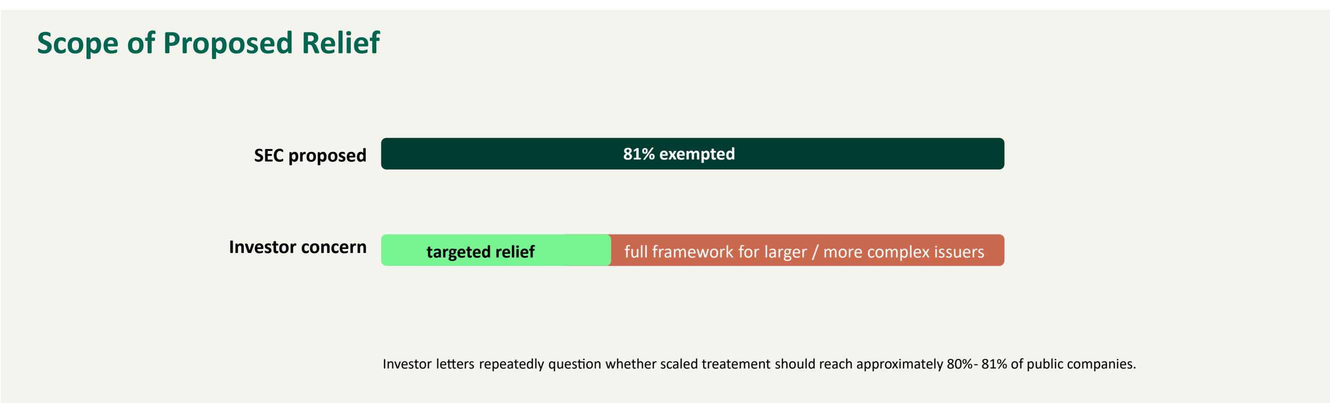
Investor respondents supported	Investor respondents opposed
✓ Shorter CD&A	✗ Eliminating CD&A
✓ Standardized dashboards	✗ Eliminating compensation disclosure tables
✓ Better graphics and tables	✗ Eliminating Say-on-Pay
✓ More machine-readable data	✗ Eliminating Pay Versus Performance
✓ Simpler compensation structures	✗ Reducing governance rights



Representative investor respondents included Baillie Gifford, Norges Bank Investment Management, CII, SBA Florida, University Pension Plan, Ontario, and NEI Investments. These investor respondents repeatedly advocated for executive summaries, better graphics, standardized formats, Inline XBRL, and simpler compensation structures.

Theme 2: Overwhelming Opposition to Exempting 80%+ of Public Companies

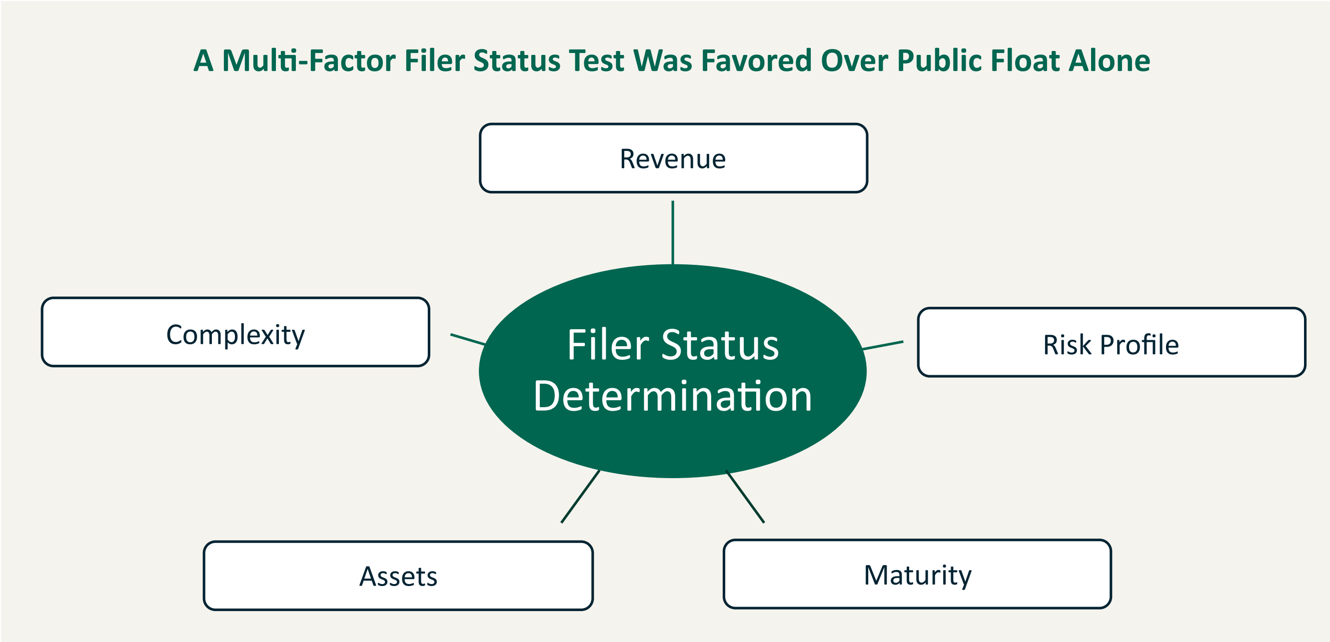
The most frequently raised concern was that the proposal would extend NAF treatment to approximately 80%-81% of public companies, significantly reducing executive compensation disclosure, say-on-pay voting, and SOX 404(b) auditor attestation requirements.



The prevailing view was that the proposal would increase information asymmetry, fraud risk, investor costs, and cost of capital, while weakening shareholders' ability to monitor compensation and governance practices.

Theme 3: Public Float Alone Is Viewed as Inadequate

Investor respondents broadly argued that public float is an incomplete and potentially manipulable measure because it may reflect capital structure choices rather than true issuer size, complexity, maturity, or risk profile.



CalPERS suggested revenue and assets should be considered, CII recommended incorporating size, complexity and maturity, Baillie Gifford favored a broader assessment of company characteristics, and UPP supported relief targeted only to truly smaller and less complex issuers.

Theme 4: Little Support for the $2 Billion Threshold

The proposed increase from approximately $700 million to $2 billion public float generated near-universal criticism. Commenters argued that the threshold lacked analytical justification, was too broad, and would provide relief beyond firms that genuinely need accommodations.

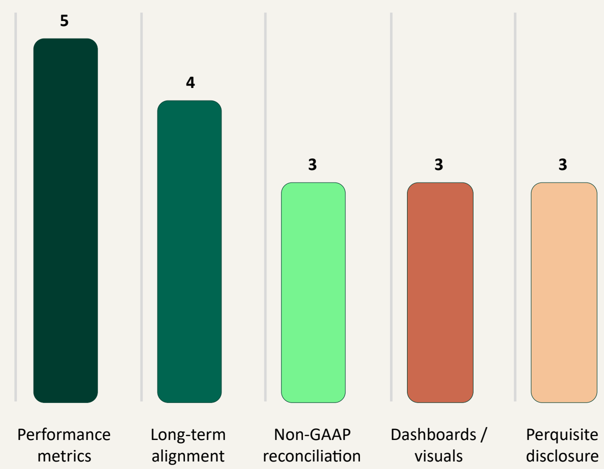
Theme 5: Five-Year IPO On-Ramp Viewed as Excessive

Investor respondents generally opposed a fixed five-year accommodation period for newly public companies regardless of size. Large and rapidly growing issuers were viewed as needing earlier entry into the full disclosure framework through size-based exit triggers.

Roundtable Letters: Investor Respondents Wanted More Disclosure, Not Less

The Roundtable submissions were especially notable because they often sought incremental disclosure enhancements while also acknowledging the need for more concise presentation. The dominant theme was modernization, not deregulation.

Roundtable Letters: More Transparency, Better Presentation



Common recommendation	Representative investor respondents
More disclosure of performance metrics	CII, LACERA, Erste, SBA, NEI
Non-GAAP reconciliation requirements	CII, Norges, LACERA
Enhanced perquisite disclosure	LACERA, AFSCME, SBA
More long-term performance visibility	Baillie Gifford, Norges, CII
Better visualization and dashboards	Erste, SBA, Baillie Gifford

Who Submitted Comments?

The comment file included public pension funds, asset managers, governance organizations, labor-affiliated investors, faith-based investors, and investor coalitions. Collectively, these groups represent tens of trillions of dollars in assets under management and stewardship. In some cases, organizations provided comments on both the EGC and Roundtable issues. These same organizations also submitted comment letters to the SEC on its semi-annual reporting proposal.

The Dog That Didn't Bark: Absence of the Largest Institutional Investor Respondents

One of the most interesting observations from the comment file is who did not submit prominent public comment letters. The absence of many of the largest passive and active managers creates an important caveat: opposition was overwhelming among those who commented but does not necessarily represent the views of the industry's largest asset managers. These organizations may choose to provide policy updates that outline their disclosure preferences once the rules are finalized and encourage each company to develop a disclosure framework that preserves transparency and maintains investor confidence. These same organizations have refrained from submitting comment letters to the SEC on its semi-annual reporting proposal.

Pay Governance Perspective

The comment record, while limited, suggests a striking degree of alignment among participating investors: simplify presentation, improve comparability, and modernize disclosure, but preserve the underlying transparency framework that investors rely upon to assess executive compensation, governance quality, and board accountability.

What investor respondents appeared to support	What investor respondents generally opposed
✓ Better disclosure	✗ Reduced transparency
✓ Simpler presentation	✗ Elimination of Say-on-Pay
✓ More standardization	✗ Elimination of CD&A
✓ Enhanced comparability	✗ Expanded disclosure exemptions
✓ Better performance metric transparency	✗ $2B threshold and five-year blanket IPO exemption

BOTTOM LINE

Companies should plan for more extensive investor outreach and engagement to understand investor expectations about future compensation and other disclosures. If the SEC proceeds with broad scaled-disclosure relief, companies should consider how much disclosure to continue voluntarily to maintain investor confidence and minimize friction on Say-on-Pay, director elections, and broader governance engagement.

General questions about this Viewpoint can be directed to Mike Kesner (mike.kesner@paygovernance.com).