

## Executive Security Arrangements: Top of Mind In 2025

### Disclosure Requirement Refresh, Market Practices, and Key Considerations

Although the number of perquisites and other personal benefits offered to corporate executives continues to decline, one notable exception to this trend has been personal security arrangements. And, with recent events presenting a reminder of our turbulent times, we expect to see boards of directors implement new security arrangements or modify existing programs in the days ahead as both publicly traded and privately-held companies assess the increasing visibility and vulnerability of their key executives and focus on the adequacy of the precautions they have in place to safeguard their organization and minimize risks to their leaders.

While companies generally view all executive security arrangements to be an “ordinary and necessary” business expense, the Securities and Exchange Commission takes the position that the provision of personal security must be analyzed to determine whether it constitutes a “perquisite” reportable as part of a company’s executive compensation disclosure. Even though the cost of providing perquisites and other personal benefits to executives is relatively small when compared to their overall compensation packages, not to mention overall corporate expenditures, investors remain interested in a company’s “perk” practices; typically, closely scrutinizing the disclosure of this subject. Given the heightened attention being given to executive security arrangements at the present time, this Thoughtful Disclosure Alert provides a summary of current disclosure requirements, security practices in the technology and life sciences sectors, and other key considerations.

### Refresh of Current SEC Disclosure Requirements

<p><b>What is Reported in the Summary Compensation Table?</b></p>	<p>All perquisites or other personal benefits other than items considered “integrally and directly” related to the performance of duties or if generally made available to all employees on a non-discriminatory basis even if the item confers a personal benefit.</p>
<p><b>Is there a Dollar Disclosure Threshold?</b></p>	<p>If the total value of all perquisites is \$10,000 or more, then each perquisite (such as personal security arrangements), regardless of the amount, must be identified by type in the “All Other Compensation” column of the Summary Compensation Table. If the cost of an individual perquisite exceeds the greater of \$25,000 or 10% of the total perquisite amount for an executive, then the item must be quantified and described in a footnote. In addition, the methodology for calculating the item’s aggregate incremental cost must be described in the footnote.</p>
<p><b>How are Perquisites Valued for Reporting Purposes?</b></p>	<p>Perquisites are to be valued on the basis of the aggregate incremental cost to the company.</p>

## Security Arrangements – A Reasonable Business Expense or a Personal Benefit?

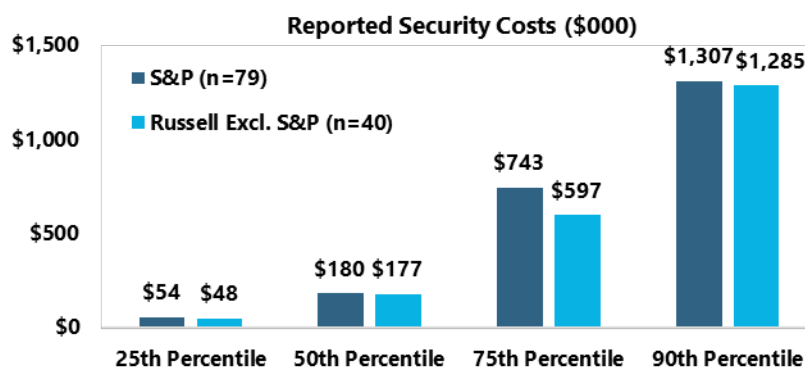
Many companies believe that the provision of security arrangements constitutes a reasonable business expense. Prior to approval, the Board of Directors often commissions a “security study” to document the existence of a *bona fide* business-oriented security concern that requires creation of a formal security program. (Typically, for federal income tax purposes, such a study is a prerequisite to the deductibility of expenses incurred for security services.) Notwithstanding the conclusion that a security program is necessary, the SEC’s current position regarding personal security arrangements often results in some portion of the program being reported as a perquisite. For each company, what is ultimately reported is a “facts and circumstances” determination taking into consideration which program components (if any) may provide some personal benefit.

## Market Practices – Disclosed Personal Security Amounts Continue to Rise

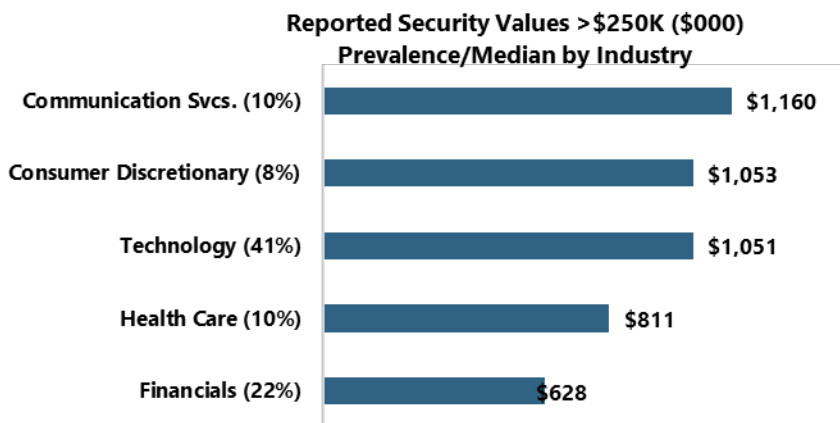
Perquisites and other personal benefits overall have generally tended to represent a nominal portion of executive pay packages and experienced further decline in recent years as these offerings narrowed among public companies. Contrary to this overall trend, security arrangements have expanded in type (such as home security systems, personal security monitoring, and private secure transportation) and cost.

Based on proxy statement disclosures for S&P 500 and Russell 3000 companies with fiscal year ends September 2023 through August 2024 (the most recent year for which data is available):

- 24% of S&P 500 companies disclosed personal security arrangements with a value of \$10,000 or more for specified named executive officers during the year. In many instances, these arrangements were limited to the Chief Executive Officer. Where reported, the aggregate incremental cost to the company of such arrangements varied significantly, ranging from approximately \$11,000 to approximately \$9.4 million. 2% of non-S&P 500 Russell 3000 companies disclosed such arrangements, with values ranging from \$54,000 to \$3.7 million.



- Among all S&P 500 and Russell 3000 companies, 49 disclosed personal security arrangements costing more than \$250,000, with an average of \$1.4 million across these 49 companies. Technology and technology-related entertainment industry companies represent approximately 40% of this group, followed by financial industry companies (20%).



## A Pragmatic Take on Future Disclosure

In light of many companies’ views that all security arrangements (both business and personal) are a necessary and integral aspect of the performance of executives’ jobs and the views of ISS, some institutional shareholders, and the SEC that these arrangements should be disclosed as a requisite, thorough disclosure of these arrangements is important. While there is no indication that the SEC will change its long-standing position that personal security-related costs may be considered reportable benefits, it seems possible that investors may be more reticent to taking a critical view of necessary security related costs in the near term. In view of recent events, if a company’s disclosure appropriately addresses the need, and rationale, for such security arrangements, the dollar amount disclosed as a requisite is likely to be better understood. Committees considering adjustments to, or introduction of, personal security arrangements for named executive officers should ensure the Board of Directors’ decision making is grounded in an informed and thorough risk management process involving the compensation, legal, and risk functions. This process may include, among other things:

- ✓ Using the company’s enterprise risk management process and risk “heatmapping” to help inform the degree and drivers of executive security risk and mitigation steps/strategies
- ✓ Conducting a systematic security assessment to support decision-making with shareholders and defend the company’s tax position
- ✓ Ensuring clear proxy statement disclosure that identifies the particular nature of the benefit received and provides the rationale for the arrangements without creating further vulnerabilities

## Need Assistance?

Compensia has extensive experience in helping companies establish executive compensation programs and practices and developing disclosure of such practices in their proxy materials taking into consideration SEC disclosure requirements, proxy advisory firm policies, and investor expectations. If you would like assistance with or if you have any questions on the subjects addressed in this Thoughtful Disclosure Alert, please contact your regular Compensia team members or the authors of this Alert:

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