Clawbacks

By: Brent Longnecker

Clawbacks are the recovery of money already paid to an executive, usually due to poor performance and illegal/immoral misconduct. Typically, it is a contractual provision whereby an executive must return monies already paid back to the employer. Most companies use clawback policies in executive employment contracts for short- and long-term incentive plans. It's a way to keep every "honest" and balanced leader.

Most people forget that the first federal statute to allow for clawbacks on executive pay was the Sarbanes-Oxley Act in 2002, following the Enron fiasco. It provided for clawbacks of bonuses and other incentive-based compensation paid to CEOs and CFOs in the event of misconduct on the company's part, leading to a financial restatement of the books. Later, the Dodd-Frank rules after the Great Recession attacked this as well, and now, finally, after over a decade of waiting… they are out.

Below are two great articles- one by Harvard and the other by WorldatWork. Harvard gets into much more detail, but both are excellent reads.

[SEC Finalizes New Clawback Rules (harvard.edu)](harvard.edu)

SEC's Final
Clawback Rules - Wl