Summary of H. R. 1257, the Shareholder Vote on Executive Compensation Act

Background

Reports of "excessive" executive pay have energized efforts by activist investors and unions to rein in executive compensation. H.R. 1257, introduced by Chairman Frank, would require public companies to provide annual, non-binding shareholder votes on approval of executive compensation packages and require separate non-binding vote to approve any executive pay packages related to a purchase or sale of the company.

On March 28, 2007, the legislation was approved by the Financial Services Committee by a vote of 37 to 29. Republicans offered a total of 15 amendments during the mark up of H.R. 1257, only one of which was adopted.

Republican Views of H.R. 1257

While President Bush and Treasury Secretary Paulson have both expressed concerns about executive pay that is not closely tied to corporate performance, but the administration does not believe that legislation in this area is warranted.

Additionally, during Committee debate on H. R. 1257, a number of substantive objections were raised:

- While the evidence suggests there have been abuses, it does not indicate that a systemic problem exists. There are nearly 15,000 publicly traded companies in the United States and almost all of their executives are paid fair and appropriate salaries. With respect to salary increases, from 1994 to 2004 the pay of S&P 500 CEOs increased by roughly 3 times. By comparison, the top 25 hedge fund managers earned more in 2004 than all 500 CEOs in the S&P 500, and the number of professional baseball, basketball, and football players earning more than $5 million increased by a factor of 10 during the same ten-year period.

- Corporations are representative, not direct democracies. Mandating shareholder votes on core operational issues risks undermining corporate boards' autonomy to protect the interests of all shareholders, not just those that pound on the table the hardest. If shareholders are granted a non-binding compensation vote, some will use the new power to push political and social agendas that may not be in the interests of a majority of shareholders.

- Adopting this proposal may yield unintended, unwanted consequences. Free market forces have guided executive compensation throughout the country's history. Therefore, one has to wonder if imposing new impediments to recruiting or rewarding top executive talent could result in an exodus of qualified corporate officers from public companies to private companies, hedge funds, or private equity firms. This could harm America's global competitiveness.

- There's already been significant regulatory activity in this area. Last July and December, Chairman Cox guided initiatives through the SEC that now require proxy statements to include comprehensive summaries of executive compensation, presented in a scorecard format that is easy for shareholders to understand. Congress needs to give the SEC actions a chance to work.

- The system is already self-correcting without legislative intervention. At least one major U.S. corporation, Aflac, has already adopted a "say on pay" for its shareholders, and other companies are considering following Aflac's lead. Also this spring, some U. S. companies and shareholders have formed a working group to study how a "say on pay" policy could be implemented.