

Ranking Member Spencer Bachus (AL) Opening Statement at the Mark-up of H.R. 1257, "Shareholder Vote on Executive Compensation Act"

March 21, 2007

Thank you, Mr. Chairman, for convening today's markup of your bill to provide for shareholder advisory votes on the executive compensation packages of publicly traded U.S. corporations.

At the legislative hearing that the Committee held on this bill two weeks ago, I expressed concern — shared by many of my constituents — over recent instances in which corporate boards have approved extravagant payments to executives who clearly failed to lead their companies successfully and deliver shareholder value. Lavish executive compensation packages for CEOs who have underperformed have contributed to the growing public perception — justified or not — that the rules in corporate America are rigged in favor of well-insulated insiders, often aided and abetted by boards of directors that have failed in their fiduciary obligations to shareholders. This perception undermines confidence in corporate America, and unfairly taints the vast majority of U.S. companies that adhere to sound corporate governance practices in determining the compensation of CEOs and other senior management.

While I share some of the sentiments that motivated the authors of this legislation, I remain skeptical that legislative intervention is either necessary or well-advised. Our system of corporate governance has evolved over decades, even centuries, and we should make changes with great care. The admonition to "first, do no harm" should guide us.

Moreover, recent developments suggest that market forces, combined with regulatory initiatives to require greater transparency in corporate disclosures of executive compensation arrangements, may yield a more constructive solution than any action this Congress could take. Under Chairman Cox's leadership, the SEC now requires proxy statements to include comprehensive summaries of executive compensation, presented in a scorecard format that is easy for shareholders to understand. At least one major U.S. corporation, AFLAC, has voluntarily agreed to include an advisory vote on executive compensation on its 2007 proxy statement, and other companies are reportedly considering following AFLAC's lead. Evidence that free market forces are already at work to correct any excesses in the system should give this Committee pause before it seeks to impose a legislative "fix" that could, like past efforts in this area, have unintended consequences.

At the March 8th hearing on this legislation, Members on this side of the aisle questioned the wisdom of legislating on matters that have historically been left to the discretion of boards of directors. Corporations are representative — not direct — democracies, and mandating shareholder votes on core operational issues such as compensation levels risks undermining the ability of corporate boards to exercise independent judgment on behalf of all shareholders, not just those constituencies that pound on the table the hardest. Another concern expressed at the hearing was that artificial impediments to rewarding top executive talent could prompt qualified corporate officers to opt for far more lucrative employment at hedge funds and private equity firms, which is hardly in the interests of shareholders in publicly traded companies and could ultimately affect America's global competitiveness.

To address these and other concerns, I expect a number of Republican amendments to be offered at today's mark-up, and I look forward to a constructive debate on those proposals.

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