Exec Pay Anger Spurs Disclosure Rules, Shareholder Input, But Not Salary Caps

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Amid growing public criticism of lavish CEO pay, the government is moving to push public corporations to disclose and justify executive compensation. But so far Congress and regulators aren't trying to limit salaries.

Companies now must detail exactly how much top executives earn in pay and perks. Now, a key House panel wants to let shareholders do something about that.

The House Financial Services Committee on Wednesday approved a "say on pay" bill requiring advisory votes on executive compensation.

Shareholders would vote once a year on pay packages. They would also weigh in whenever a firm is bought or sold and execs receive "golden parachute" packages.

The votes would be nonbinding, but advocates say they still would push boards to be more independent of management. Lawmakers would like to curb high pay packages that seem excessive and out of step with a firm's performance. Many cite the $210 million severance given to former Home Depot CEO Robert Nardelli in January.

House Financial Services Chairman Barney Frank, D-Mass., says the bill is a modest step to give shareholders better control over pay. He has rejected direct government action to limit CEO pay.

According to the Corporate Library, the median CEO pay was $13.5 million in 2005, up 16% from the year before. CEOs earn about 500 times more than the average worker, up from 140 times in 1993, according to Harvard Professor Lucian Bebchuk.

New rules from the Securities and Exchange Commission mean that, starting this spring, firms must disclose far more about how much executives are paid, not just in salaries but in perks, pensions and other compensation.

Critics of Frank's bill say lawmakers should wait to see if the SEC rules have any effect on restraining pay.

At the very least, the new SEC rules are likely to spur more debate over whether U.S. executives are overpaid.

Some investors say high pay is cutting into profits and is a sign that boards are too cozy with management. CEOs aren't being rewarded for their firm's long-term success, they say.

But some question if criticism of high CEO pay is appropriate. Competition over top talent has heated up. Private equity firms seem willing to pay top dollar.

Advocates of the bill point to the success of a similar rule in Britain.

Stephen Davis, a fellow at the Millstein Center for Corporate Governance at Yale University, studied the rule's impact.

British shareholders almost never reject pay packages, but boards are structuring pay differently and consulting shareholders much more often, Davis said. "Pay is tied much more strictly to the real performance of the company," Davis told Congress this month.

But critics of the bill warn about unintended consequences.

Nonbinding votes could disrupt corporations, execs warn. Boards would spend more time on politics, and less on running the company.

Some business groups argue shareholders have no business dictating what managers are paid.

"Corporations were never designed to be democracies," said John Castellani of the Business Roundtable, a group of major U.S. CEOs. "While shareholders own corporations, they don't run (them)."

Also, compensation packages are complex, says Ryan Johnson of WorldatWork, an association of compensation experts and other human resources professionals. Shareholders don't decide where to locate new factories or when to roll out new products, so why should they get input on pay?

When he introduced the bill, Frank stated: "I do not understand those who argue that the people who make up our stock markets are collectively very wise, but at the same time are somehow incapable of rendering a coherent opinion of what they should pay those they employ to run the corporations that they own."

So far, only a small number of firms have issued the required pay data. But the rules could have unintended results, experts warn. With more information about what their peers are earning, companies may hike pay to avoid giving compensation that seems "below average."

The bill's prospects are unclear. It passed the Democrat-controlled committee Wednesday with just two Republican votes. The Senate is considering a very different measure. It would make it harder for executives to avoid taxes by deferring their compensation to future years.