House Backs Greater Say On Pay by Shareholders

Bill Also Adds to Regulators' Power to Curb Compensation

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The House approved legislation Friday that would give shareholders greater say over executive pay and expand the powers of regulators to limit compensation packages that they deem improper.

The measure, which passed 237 to 185, came in response to public outrage over massive bonuses paid out at big financial firms that took billions of dollars in emergency aid from the government.

"Under this bill, the question of compensation amounts will now be in the hands of shareholders and the question of systemic risk will be in the hands of the government," said Rep. Barney Frank (D-Mass.), who leads the House Financial Services Committee and who authored the bill.

The vote comes a day after New York Attorney General Andrew M. Cuomo reported that the nation's nine largest banks handed out $32.6 billion in bonuses last year even as they ran up more than $81 billion in losses and accepted tens of billions of dollars in emergency federal aid. Cuomo found that nearly 4,800 executives and other employees at these firms were each awarded at least $1 million.

But some compensation experts said they doubted the measure would reform the culture of extravagant pay that pervades Wall Street.

Rather than setting precise limits on what such firms can pay employees, the House bill adopts a more indirect approach, taking aim at the pay practices that encourage traders and executives to take big risks. Regulators could ban pay packages but would not be able to clamp down on compensation simply because it is considered lavish.

Pino Audia, a professor of organizational behavior at the Tuck School of Business, said the bill could have done more to limit companies' ability to change performance measures in order to maintain pay levels.

The bill also gives shareholders the right to reject a pay package, but their vote would be advisory.

Corporate compensation committees, meanwhile, would have to sever ties with management. Aspects of this provision have already been adopted by Wall Street firms. The independence of compensation committee members, for instance, is a requirement for companies to list their shares on the New York Stock Exchange.

The measure would not apply to financial institutions with assets of less than $1 billion.

"The bill does not look deliberately and consciously at the amount of compensation, only the incentives the pay structures produce," said Lucian Bebchuk, director of the program on Corporate Governance at Harvard Law School. "With respect to the shareholder 'say on pay' and bolstering on compensation committee independence, these are useful steps . . . but their effectiveness is going to be limited."

Still, some Republicans and some Democrats said the legislation goes too far because it would draw the government too deeply into the workings of private companies.

"The Democratic majority has a great desire to have the government everywhere in our lives," Rep. Tom Price (R-Ga.) said. "It cuts at the very core of our free market system."

Supporters argued that the bill would curb pay that motivated banks to take bigger risks, even if these actions threatened the stability of the entire financial system.

Treasury Secretary Timothy F. Geithner called the bill "a positive step forward to increase accountability and transparency in executive compensation, and to help ensure that pay encourages long-term performance, not excessive risk-taking."

The measure is the first element of the Obama administration's plan for overhauling the financial regulation to win adoption in either house of Congress. Other proposals, such as setting up a consumer financial protection agency, have slowed as opposition from industry lobbyists has intensified.

The executive compensation bill, which was approved largely along party lines with the Democratic majority prevailing, faces a more difficult road in the Senate. Some Senate Democrats want to combine President Obama's reform proposals into a single bill, which may delay action specifically on executive pay. Democrats say the Senate is not expected to take up executive pay legislation until after the summer recess, which ends after Labor Day weekend.

Reaction to the House vote on Wall Street was largely muted. Although some lobbyists took issue with the provision that empowers federal regulators to bar some pay practices, many industry officials said they were more concerned about other parts of the administration's plan for overhauling regulation.

The executive compensation bill itself is "small" and not a cause for great concern, one banking official said. "It's not something we are fighting very hard on," said the official, who spoke on condition of anonymity because of the sensitivity of the issue.

Not every industry official was pleased with the House vote.

"We are deeply disappointed in the outcome of the House vote today," said John J. Castellani, president of Business Roundtable. "Once again, the search for a one-size-fits-all solution to executive compensation has taken us down the wrong path, potentially at the expense of long-term economic growth and job creation."