OFFICE OF SPEAKER NANCY PELOSI
FACT SHEET

Shareholder Vote on Executive Compensation Act: Improving Corporate Accountability

Key Points:

- **As Americans learn more about lavish executive compensation packages, the Executive Compensation Act would empower shareholders to express their views on their company's executive compensation practices.**

- **This balanced and pro-market bill will enhance the accountability of corporate management to shareholders– without micromanaging the business.**

- **The legislation would allow shareholders of public companies to vote on a company's executive compensation plans – in a non-binding fashion.**

- **The bill does not cap, limit or change any executive's compensation – nor does it change the process for board's to set/approve executive compensation. It simply requires that shareholders have an annual non-binding advisory vote on their company's pay disclosures (these annual disclosures are already required by the SEC).**

- **Excessive executive pay has been proven to have a significant impact on company's profits and shareholder returns, and now the owners of the company will be given a voice on executive compensation plans.**

- **Improved corporate accountability will help the free market work function better, and is critical to the American economy and people.**

Today, the House will consider H.R. 1257, the Shareholder Vote on Executive Compensation Act. The bill will require public companies to include in their annual proxies a non-binding advisory shareholder vote on their executive pay plans. It does not set limits on pay, but will ensure that shareholders have an opportunity to give their approval or disapproval on the company's executive pay practices. The bill also contains a separate advisory vote if a company gives a new, not yet disclosed, "golden parachute" while simultaneously negotiating to buy or sell a company. The legislation builds on the Securities and Exchange Commission's (SEC) executive pay disclosure rules to require that public companies include in their annual proxy to investors the opportunity to vote on the company's executive pay plans.

- Advisory votes on compensation have been successfully used in the United Kingdom and Australia and was recently adopted voluntarily by the company AFLAC.

- H.R. 1257 is supported by many shareholder and workers rights groups and investors, including the California State Teachers' Retirement System and the International Corporate Governance Network.

- The median CEO received $13.51 million in total compensation in FY 2005, up 16 percent in one year. This came on the heels of a 30 percent increase over FY 2003, 15 percent over FY 2002 and 9.5 percent over FY 2001. [Corporate Library's 2006 CEO Pay Survey of roughly 1400 CEOs for FY 2005]

- The disparity between workers and executives has grown significantly in recent years. In 1991, the average large-company CEO received roughly 140 times the pay of an average worker; in 2003, the ratio was up to 500 to 1. [Lucian Bebchuk]

- Excessive executive pay has been proven to have a significant impact on company's profits and shareholder returns. In 1993, the aggregate compensation paid to the top five executives of U.S. public companies represented 5 percent of company profits; by 2003 the ratio had more than doubled to 10 percent – with executive compensation totaling roughly $350 billion during that period. [Bebchuk and Grinstein]

- Some of these compensation packages appear to promote corporate misdeeds, such as manipulating earnings or engaging in unprofitable mergers and acquisitions – undermining shareholder value and market confidence.

- Even executives of institutions that lose money, restate earnings, and face extensive regulatory scrutiny have received substantial compensation packages. For example, Home Depot CEO Robert Nardelli, left with a $210 million separation package, after a six-year tenure when the company's stock price fell 7.9 percent.