



## Markets

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### Congress Debates Executive Compensation

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WASHINGTON — A representative for large U.S. companies objected Thursday to proposed legislation that would give shareholders the opportunity to vote on executive compensation packages.

John J. Castellani, president of the Business Roundtable, told the House Financial Services Committee, "Corporations were never designed to be democracies....While shareholders own a corporation, they don't run it."

An advisory vote by shareholders "could seriously erode critical board responsibilities," he added.

Castellani testified at a hearing focused on legislation introduced March 1 by Rep. Barney Frank, D-Mass., chairman of the committee, that would give shareholders a chance to express approval or disapproval of executive pay plans through a nonbinding advisory vote.

Pressure on companies to allow such votes is increasing, with investor advocates, union pension funds and shareholder groups pushing for so-called "say on pay" votes.

AT&T Inc. recently sought to prevent shareholders from voting on a proposal this spring that would allow annual votes on executive pay. The Securities and Exchange Commission, however, last month turned down the company's request to keep that proposal off its proxy statement.

Supplemental life and health insurer Aflac Inc., meanwhile, last month became the first U.S. company to give investors a chance to participate in a nonbinding vote on executive compensation, just as the AT&T motion would allow. Several members of the committee praised Aflac for taking the step.

The disparity between executive pay and the pay received by average workers has grown significantly in recent years. Executives earned approximately 140 times an average worker in 1991, a disparity that grew to roughly 500 to 1 in 2003, the committee said.

While all 27 cosponsors of Frank's bill are Democrats, members of both parties expressed concern about outsized executive pay packages during the hearing.

"Lavish executive compensation packages for CEOs have contributed to the growing public perception \_ justified or not \_ that the rules in corporate America are rigged in favor of well-insulated insiders," said Rep. Spencer Bachus, R-Ala., the senior Republican on the committee. "In fact, some recent examples seem to show outrageous rewards for rank incompetence."

Bachus expressed caution about Frank's legislation, however. He said the notion that shareholders should be able to express approval or disapproval of executive pay packages "is at first blush, a reasonable one."

But he said he was unsure whether legislation is necessary, given that the Securities and Exchange Commission has recently issued rules requiring greater disclosure of executive pay.

Rep. Scott Garrett, R-N.J., also voiced skepticism about the need for a bill. He said the SEC's rules "should be given a chance ... to work."

Shareholder votes are the practice in the Britain, Australia and Sweden. Advocates say pay packages are rarely voted down, but the knowledge that they must be voted on has helped keep executive compensation in check overseas.



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