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Contact: Amy Borrus
Deputy Director
202-261-7082
amy@cii.org

COUNCIL OF INSTITUTIONAL INVESTORS STATEMENT ON EXECUTIVE PAY

Washington, DC--The global financial crisis has rightly put executive compensation under a microscope. Poorly structured pay packages encouraged the get-rich-quick mentality and overly risky behavior that helped fuel the financial debacle. Corporate boards at one financial institution after another approved compensation plans with perverse incentives that rewarded executives for driving up business with scant regard for the soundness and long-term benefit of those transactions.

Now, the market meltdown is prompting many boards to consider bolstering executives' diminished pay packages by adjusting undervalued stock options, granting fresh dollops of stock or lowering targets for performance-based compensation. The Council strongly opposes such actions. "Investors across the board have taken a huge financial hit," said Joe Dear, chair of the Council of Institutional Investors and executive director of the Washington State Investment Board. "At a time when the retirement assets of millions of ordinary Americans are becoming ever more skeletal, boards should not be fattening the pay packets of executives."

The Council of Institutional Investors has long advocated executive compensation programs that create value for the long-term, advance the company's strategic goals and are tied tightly to corporate performance. Such practices are in the best interests of companies, shareowners and, ultimately, taxpayers.

The Council believes that executive compensation is a critical and visible aspect of a company's governance. Pay decisions are one of the most direct ways for shareowners to assess the performance of the board. For that reason, the Council has endorsed a set of best practices for executive pay policies and disclosures. These include:

- Companies should provide full disclosure of the performance goals used to determine annual and long-term incentive compensation. Such disclosure helps market participants evaluate whether pay practices encourage or mitigate against excessive risk-taking.
- Executives should own a meaningful amount of the company's common stock. A significant portion of their pay should be equity-based and they should be required to hold it for a period beyond their tenure.
- Companies should provide shareowners an annual, advisory vote on the compensation of senior executives. Such a vote would give boards fast, useful feedback about investors' views of the company's compensation practices. It might also deter against over-the-top pay plans at underperforming companies.

- Executives who leave a company as a result of poor performance—whether they are terminated, resign under pressure or the board fails to renew their contract—should not be entitled to severance payments.
- Companies should have clawback provisions for recapturing unearned bonus and incentive payments to senior executives.
- Compensation advisers and firms retained by the board should be independent of the client company, its executives and directors.

The Council recently commented on the executive compensation provisions of the Treasury Department's Troubled Assets Relief Program's (TARP) Capital Purchase Program. The letter may be viewed [here](#) on the Council's Web site. Ill-conceived compensation was among an array of poor corporate governance practices that contributed to the financial meltdown. To view other Council statements about the crisis, please click [here](#). To view the Council's full corporate governance policies, please click [here](#).

The Council of Institutional Investors (CII) is a nonprofit association of public, union and corporate pension funds with combined assets that exceed \$3 trillion. Member funds are major long-term shareowners with a duty to protect the retirement assets of millions of American workers. The Council strives to educate its members, policymakers and the public about good corporate governance, shareowner rights and related investment issues, and to advocate on our members' behalf.