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**CED URGES TREASURY TO DEMAND LARGER ROLE FOR
INDEPENDENT COMPENSATION COMMITTEES
Executive Compensation Needs Independent Review,
Ties to Company Performance**

Washington, D.C., September 23, 2008 – Responding to the controversy in the current crisis in financial markets, the Committee for Economic Development (CED), today reemphasized that truly independent compensation committees of corporate boards are the key to bringing executive pay in line with company performance. “If the Treasury is to buy questionable financial assets to shore up firms’ balance sheets, the nation should require that those firms adhere to the best practices to determine fair executive compensation, based on performance. Shareholder and public confidence can be reestablished only by prudent pay packages tied to performance, with no outsized severance packages,” said CED Trustee and former SEC Chairman, Roderick M. Hills. Mr. Hills chaired the CED Subcommittee on Corporate Governance which produced the 2006 report *Private Enterprise, Public Trust: The State of Corporate America After Sarbanes-Oxley*.

CED says that top corporate executive pay too often reflects neither market conditions nor individual performance and the solution is a matter of *process and disclosure* – which is all the more important in the financial legislation now being considered. Indeed, adherence to best practice should be a precondition for assistance from the public purse.

Specifically, CED recommends:

- 1) The compensation process must be run by independent compensation committees, Compensation consultants, if any, should have no business or other relationships with management (neither should the firms for which they work). They should be hired by and report to a compensation committee of the board that is autonomous from management, and that controls the terms of the consultant’s engagement.
- 2) Compensation committees should adopt measurable, specific, and genuinely challenging goals for the performance of their businesses, and judge management on their ability to achieve them.
- 3) Management should have a substantial equity interest in their company.
- 4) Management should make a full, timely, and transparent disclosure of its compensation to stockholders.
- 5) Choices of forms of compensation should promote the long-term value of the firm, rather than exploit favorable accounting or tax treatment.

6) Severance compensation, like all other forms of executive compensation, should be reviewed carefully against criteria set by the compensation committee of the board, and the board should publicly provide full details of awards and explain publicly to shareholders the full reasoning behind the granting of such awards.

7) Companies should have the right to recapture bonuses awarded to top executives in error, because financial results justifying those awards later restated adversely.

W. Bowman Cutter, a member of the CED Subcommittee on Corporate Governance, and Managing Director, Warburg Pincus LLC added, “CED believes that these transparent and logical recommendations would go a long way towards restoring shareholder trust on the compensation issue. While there are many facets to the current erosion of confidence in U.S. financial markets, certainly excessive compensation to senior managers has been one factor. Hopefully one result of this current crisis will be a return to sensible executive compensation practices.”

Given the current legislation pending before the Congress, Mr. Hills added that, “the company must have a compensation committee on its board of directors of at least three individuals who have no material social or business relationship with the company’s management;’ who have served for fewer than five years on the board; and who must be acceptable to the Treasury Department.”

Private Enterprise, Public Trust: The State of Corporate America After Sarbanes-Oxley and an executive summary of the recommendations can be found at www.ced.org

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CED is a non-profit, non-partisan organization of more than 200 business leaders and university presidents. Since 1942, its research and policy programs have addressed many of the nation’s most pressing economic and social issues, including education reform, workforce competitiveness, campaign finance, health care, and global trade and finance. CED promotes policies to produce increased productivity and living standards, greater and more equal opportunity for every citizen, and an improved quality of life for all.