U.S. Securities and Exchange Commission
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News Release

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FOR IMMEDIATE RELEASE

STATEMENT BY RICHARD C. BREEDEN
ON EXECUTIVE COMPENSATION ISSUES

Washington, D.C., February 13, 1992 -- Today, I'm announcing a number of measures that the Securities and Exchange Commission will be taking with regard to the compensation of senior executives.

At the outset, it is important to recognize that the appropriate amount and structure of compensation for corporate employees -- whether on the shop floor or in the executive suite -- is a question that should be resolved in the private marketplace. Market forces, not government regulation, should be used to address instances of abusive conduct.

Under our system, boards of directors are responsible for representing shareholder interests in overseeing management performance. Boards also have the responsibility for determining the level and structure of compensation that is appropriate in light of corporate performance and other factors. Boards that pay too little can expect to lose their best management talent. Boards that pay too much, by contrast, create unnecessary costs that must be absorbed by the shareholders that the boards represent.

In the actions that we are announcing today, the SEC intends to enhance the workings of market forces in two principal ways:

- By giving shareholders information about executive compensation that is easier to understand and more relevant.

- By permitting shareholders to make their views about this compensation known to boards of directors.

I. SHAREHOLDER VOTING

Under existing federal law, a shareholder who owns $1000 worth or 1% of the stock of a public company has a right to submit one proposal for inclusion in the company's proxy statement. The law requires that proposals be included unless they are clearly excludable under the governing SEC proxy rules.

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Executive compensation is ultimately "paid" by the shareholders of any corporation, as the holders of the residual equity value of the enterprise. However, the SEC historically has allowed companies to exclude from their proxy statement shareholder proposals relating to any aspect of compensation, including the compensation of senior executives and directors. This has been on the basis that compensation was a matter of day-to-day "ordinary business."

At the same time, under existing rules if an issue is deemed to be a significant "policy" issue, that issue may not be excluded from the proxy. The SEC performs the role of "referee" in ruling on whether specific proposals are includable or excludable from the proxy statement.

In recent years, shareholders have increasingly sought to place proposals "on the ballot" regarding executive compensation. In 1986 there were 35 shareholder proposals on compensation and benefits submitted to companies, compared with 110 such proposals in 1990. This mirrors a significant growth in the number of shareholder proposals on all topics relating to corporate governance. Perhaps, most importantly, the level of public and shareholder concern over the issue of senior executive compensation has become intense and widespread. Under current law, the existing level of public concern with this question, as a matter of policy with significant economic implications, dictates a reevaluation of whether shareholder proposals on senior executive or director compensation should be included in the proxy statement.

For these reasons, the SEC is announcing that ten pending shareholder proposals must be included in the proxy materials of the affected companies. In addition, henceforth the SEC will construe <u>advisory</u> proposals concerning senior executive or director compensation to be includable in proxy statements. Such votes will be advisory only, and must be worded as such. Hopefully, this decision will bring a market solution to a market problem, by allowing the affected private sector groups -- management, directors and shareholders -- to resolve the compensation questions in each company on a case-by-case basis without government regulation.

II. COMPENSATION DISCLOSURE

As part of the effort to bring a market-oriented solution to the compensation issue, the SEC is also announcing that we will propose for public comment revisions to the proxy rules that would clarify and enhance the disclosure of current compensation packages. Under the new proposals, the company will be required to set forth in a new summary table both cash compensation and the present value of grants of stock or stock options in the year of grant.