Obama Lays Out Limits on Executive Pay

Firms That Get Bailout Funds Face $500,000 Salary Cap, Must Disclose Luxury Purchases; A Move to ‘Claw Back’ Bonuses

BY JONATHAN WEISMAN AND JOANN S. LUBLIN

WASHINGTON—President Barick Obama laid out strict new regulations on executive compensation Wednesday, strafing Wall Street with tough talk as Washington asserts increasing control over a financial sector seeking more government funds.

The plan, which represents the most aggressive assault on executive pay by federal officials, includes salary caps of $500,000 for top executives at firms that accept “extraordinary assistance” from the government.

It also restricts severance packages, known as “golden parachutes,” for dismissed executives and requires the disclosure of policies on so-called luxury spending on things such as holiday parties, corporate jets and office renovations.

The administration called the latter part of the initiative the “name and shame” provision, designed to make companies think twice about indulgent outlays.

“‘This is America,’” the president declared at the White House. “We don’t disparage wealth. We don’t begrudge anybody for achieving success. And we believe success should be rewarded. But what gets people upset—and rightfully so—are executives being rewarded for failure, espe-
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Roebuck & Co. Boards realize they can’t "reward behavior that doesn’t also reward shareholders," he adds. "That’s on everybody’s lips right now."

Treasury officials and the White House, after what one official described as a "little push and pull," tried to strike a delicate balance, hoping to take the hardest possible line on executives without scaring institutions away from accepting assistance.

The initiative divides beneficiaries into two categories. The first includes companies needing "exceptional assistance"—such as Bank of America Corp., Citigroup Inc. and insurance giant American International Group Inc.—which received specially designed rescues of their own. The second group encompasses firms that seek assistance through generally available programs, like the government’s capital-injection effort under the Troubled Asset Relief Program. The planned second installment of the $700 billion financial rescue package is set to be unveiled next week.

Unlike the rules for "exceptional" institutions, the regulations for firms taking generally available rescue funds will be subject to a brief public comment period, during which time they could be slightly altered. The final rules should be adopted by Treasury "within weeks," a Treasury aide said.

Some Treasury officials warned against going too far, arguing the rules could discourage healthy banks from participating. White House Chief of Staff Rahm Emanuel wanted the $500,000 salary cap, a White House official said. Dividing the rules between regular recipients and those receiving "exceptional" help was the compromise.

The administration imposed the toughest rules on the "exceptional institutions," figuring they won’t be in a position to argue. Compensation for "senior executives"—a term left undefined and subject to negotiation with Treasury—would be capped at $500,000. Any pay above that would have to come as restricted stock, which could vest only after the recipient of bailout funds repays its debt to the government with interest.

Such companies will have to disclose their executive compensation structures and submit them to shareholders for a non-binding vote of approval. The top 25 officials of an "exceptional assistance" company could have their bonuses and other incentive compensation "clawed back" by the company if they knowingly provide inaccurate information that helped bolster their pay.

The top 10 senior executives will be barred from any severance package if they are fired. The next 25 executives will be limited to a year’s compensation upon termination.

Under the new plan, corporate boards will have to adopt companywide policies on luxury purchases, defined as expenditures for aviation services, office and facility renovation, entertainment and holiday parties, conferences and events. Chief executives will have to personally certify expenditures that could be viewed as luxury items, and expense policies will have to be posted on the Internet.
For companies participating in generally available rescue programs, such as Treasury's capital-injection program, the rules are looser. The $500,000 salary cap can be waived with disclosure of compensation packages and a nonbinding shareholder vote. And under a less-restrictive “golden parachute” rule, the top five executives could get up to one year's compensation upon severance—still tougher than the three-year limit in the existing bailout law.

The compensation initiative risks crossing a line into the kind of government intervention that unnerves some voters. “I understand the mood of the country right now,” says S. Phillip Collins, president and chief executive of Sound Banking Co., Morehead City, N.C., which received $5 million in bailout funds. But if executives are making money for shareholders, “they should be rewarded for it.”

Some compensation experts and bank executives worry the new moves may backfire by discouraging firms from seeking federal assistance and making it harder for them to recruit top talent. “It may be well-intentioned, but I wonder if it will have the practical effect of blocking the filling of vital jobs in troubled companies,” said Claudia Allen, chairman of the corporate-governance practice at Neal Gerber & Eisenberg LLP.

The government’s intrusion into corporate boardrooms was in many ways inevitable, as companies from Detroit to Wall Street sought taxpayer rescues but resisted dictates from Washington. “There is a deep sense across the country that those who are not responsible for this crisis are bearing a greater burden than those who were,” said Mr. Geithner, announcing the new rules alongside the president Wednesday.

In some of the most partisan language Mr. Obama has used since taking office, he also took on Republicans holding up his massive economic-stimulus package, accusing them of echoing “the very same failed theories that helped lead us into this crisis.”

Executive compensation provisions in the $700 billion Wall Street bailout approved last year have been viewed critically. News of ex-Merrill Lynch CEO John Thain's million-dollar office renovation and Citigroup's planned—then scuttled—purchase of a $42 million jet after a taxpayer rescue fanned voter discontent and spooked Congress about offering up any more funds.

Still, some of the curbs included in the initial rescue rules are setting standards in industries far from finance. The Treasury required banks participating in the TARP bailout to “claw back” bonuses and other incentive pay from top executives when they determined it had been given inappropriately. Michael Kesner, head of compensation consulting for Deloitte Consulting LLP, estimates half of his clients will implement claw-back provisions this year.

Some companies have already been scaling back expenditures. Wells Fargo & Co. canceled plans Tuesday to host a Las Vegas employee conference after lawmakers criticized the trip. Goldman Sachs Group Inc. called off a Miami hedge-fund conference, telling clients that the lavish event could cause image problems.

—Phred Dvorak contributed to this article.