
SUCCESS IS NOT SIMPLY MEETING CLIENTS' EXPECTATIONS

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THE WALL STREET JOURNAL

WSJ.com

MANAGEMENT | FEBRUARY 12, 2009, 11:56 P.M. ET

Shareholders Renew Push to Regulate Executive Pay

By [CRAIG KARMIN](#)

After going nowhere last year, shareholder proposals to limit executive compensation at banks and securities firms are back with a vengeance.

More than 40 financial firms have been hit with pay-related proposals, including [Bank of America Corp.](#), [Citigroup Inc.](#), [J.P. Morgan Chase & Co.](#) and Morgan Stanley. Most of the targets are recipients of government capital from the Troubled Asset Relief Program.

The total is up from about two dozen in 2008, according to proxy advisers RiskMetrics Group Inc. Some financial companies already are bracing for defeat on executive-pay votes, conceding that many investors are fed up with lousy returns and public-relations blunders that make it look like Wall Street has lost touch with reality.

Other financial firms are fighting to keep shareholder proposals off proxy statements due to flood mailboxes in March, and some companies are trying to negotiate compromises that could avert potential embarrassment at their next annual meeting.

"The movement seemed to plateau last year, but the financial crisis has stoked shareholder frustration on pay issues," says Stephen Davis, a senior fellow at Yale University's Millstein Center for Corporate Governance and Performance in New Haven, Conn. "Investors will take out that frustration on companies with votes this year."

Typical of this year's turn-up-the-heat strategy is the United Brotherhood of Carpenters, which has submitted shareholder proposals to 21 TARP recipients. The 650,000-member union wants to limit bonuses and severance pay for senior executives to no more than the executive's annual salary. In addition, executives would be required to hold at least 75% of shares obtained from vested stock options for the full term of their employment.

"We are confident we will get broad shareholder support for measures that are included on the proxy," says Edward Durkin, the union's director of corporate affairs.

Proposals requiring an annual advisory shareholder vote on executive compensation at Bank of America, Bank of New York Mellon Corp. and [Goldman Sachs Group Inc.](#) in 2008 each received support from investors representing at least 45% of the shares.

Since then, the tide has turned against financial institutions. President Barack Obama has said that he supports "say-on-pay" measures that would authorize an annual shareholder vote on executive compensation. A congressional committee's seven-hour bombardment of bank CEOs on Wednesday over their pay, perks and culpability for the nation's financial crisis also could prod some institutional and individual shareholders into backing proposals they ignored in the past, experts predict.

"The hearings elevate the issue with the boards and with the public," says Timothy Smith, a senior vice president at Walden Asset Management, a unit of Boston Trust & Investment Management Co.

Emboldened by the shifting winds, the American Federation of State, County and Municipal Employees Pension Plan has submitted shareholder proposals at Charles Schwab Corp., E*Trade Financial Corp. and J.P. Morgan that would curb or eliminate bonuses based on short-term performance.

Five additional proposals by the union's pension plan would require executives to hold onto shares in their company for two years after leaving the company, which the sponsor says will further align executives' personal interests with their companies'.

Meanwhile, the American Federation of State, County and Municipal Employees is trying again to win annual advisory shareholder votes for executive-compensation proposals at 15 financial firms, including Bank of New York and Citigroup.

"We are submitting reform proposals that go to the heart of a pay structure that encourages risk," says Richard Ferlauto, director of corporate governance at AFSCME. "Executives should feel the pain for wrong decisions."

Some of the targeted companies say the reasons why such proposals are a bad idea are as strong as ever. Companies contend that current pay structures are necessary to attract and retain talent, despite job losses on Wall Street. In response, about a dozen companies have appealed to securities regulators for approval to keep certain executive-pay measures off the proxy statement, according to the carpenter's union.

The Securities and Exchange Commission can decide that a proposal is too vague or otherwise flawed and then inform a company that it will take no action if the company omits the proposal.

Officials at J.P. Morgan and Morgan Stanley, which are fighting shareholder proposals at the SEC, declined to comment.

So far, the SEC has sided with only two financial companies on pay-related shareholder proposals leading up to this spring's annual-meeting season. [SunTrust Banks Inc.](#), a regional bank based in Atlanta, may exclude a proposal made by the International Brotherhood of Teamsters, the agency ruled, because the union didn't specify the period for the pay limitations.

"We believe our executive compensation is performance-based and consistent with shareholder interests," says Mike McCoy, a SunTrust spokesman.

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