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Himes: Shareholders must have more say on exec pay

Rep wants shareholders to have more say

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Emerging as a key player in the oversight of the financial services industry, U.S. Rep. Jim Himes, D-Conn., said he supports an effort by the Obama administration to develop a set of "best practices" for compensating Wall Street executives, including those at the helm of firms that did not receive federal bailout money.

"What we're talking about is really empowering shareholders whose responsibility it is to determine pay in the companies they own and to do what we all agree is right, reward for creating value and punish people for poor management," Himes said in an interview last week.

A member of the House Financial Services Committee and former Goldman Sachs investment banker who was elected to Congress last November, Himes said compensation structures in the banking industry "over-incentivize risk" because they are often based on short-term performance.

Himes was careful not to say that the guidelines should be mandatory, however.

"Nobody in the government is saying that the government should set pay rates or mandate compensation in the private sector," said Himes, whose district is home to many Wall Street head honchos.

Some Republican foes of Himes questioned the need for new guidelines on compensation, though, calling it another layer of bureaucracy.

"I'm sure when he worked for Goldman Sachs he probably wouldn't be happy if somebody capped his pay under any context," said Christopher Healy, the state Republican party chairman.

Healy said there are adequate laws on the books aimed at preventing companies from becoming over-leveraged that need to be better enforced by regulators, including the Securities and Exchange Commission.

"Himes trying to micromanage the economy is a bad idea," Healy said. "Congressman Himes is sort of playing to a certain number of people who feel they have been gypped or ripped off. What he's proposing is not going to fix the problem, not going to make those people whole and is sort of putting an air brake on the problem."

John Carusone, president of the Bank Analysis Center, a Hartford-based consulting firm and investment banking boutique that advises industry executives, said Himes is showing he is in tune with his constituents.

"To Jim Himes' credit, despite his Wall Street background, he recognizes the average American has a hard time understanding superior pay for inferior performance," Carusone said. "His leadership on federal oversight initiatives should be a welcome development."

Carusone said the banking industry is very much divided on government regulation of executive pay, with larger institutions that suffered losses accepting the consequences and smaller firms more resentful of intervention.

"Smaller or medium-sized institutions that skated

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through these difficult times that were not the beneficiaries of (the) federal bailout are a little less sympathetic. They didn't do anything wrong in the first place. Their compensation schema is typically based on reasonable standards," Carusone said.

Himes said he is no way lumping banks that received bailout funds from the Troubled Asset Relief Program with those that did not.

"I think they're very different discussions. Shareholders determine compensation. Now the government happens to be a major shareholder in TARP firms," Himes said.

In April, the House approved a bill introduced by Himes that would require executive pay to be based on performance standards at institutions that have received funding from the TARP.

While he generally opposes government intervention in the affairs of banks that were not bailed out, Himes said there may be some extenuating circumstances to do so.

"Now there are non-TARP firms that may choose to have compensation structures that reward short-term risky behavior. As we've learned, at great costs, we have a public interest in modifying excessively risky behavior," Himes said.

Mark Calabria, director of financial regulation studies at the Cato Institute, a Libertarian think thank in Washington, D.C., said not all investors are in it for the long-term, however.

"If you're a big mutual fund company and you're investing in some company you hold shares in, your perspective is the next quarter, too," Calabria said. "How much of the investor base wants it to be really long-term value?"

Calabria, who previously worked as a professional staff member of the Senate Committee on Banking, Housing and Urban Affairs when its chairman was Alabama Republican Richard Shelby, said he is worried about the direction the government is headed.

"The real danger here is a slippery slope of having firms have compensation dictated by political agendas rather than the business interest of the firm," Calabria said.

Calabria pointed out that a number of financial services firms have changed their pay structures on their own.

Himes himself singled out Swiss banking giant UBS, whose North American headquarters is in Stamford, part of his district, as a leader on that front.

Last November, the company introduced a new compensation model that keeps cash and equity bonuses in a reserve fund that are subject to release based on the firm's performance, according to the UBS Web site.

"UBS has created compensation plans that reward long-term value," Himes said.

Himes said he also wants the government to examine corporate governance.

"I personally believe the boards of directors right now lean too heavily to the CEO and don't adequately represent shareholders," Himes said.

Himes said that staggered terms for board members make it difficult for shareholders to make a change if the directors are not acting in their interests.

Calabria said there are benefits to staggering terms for board members.

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"You insulate the board from fads and trends," Calabria said. "I think if you went away from staggered boards you would get more short-termism."

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