# Congressional Oversight Panel Examines Executive Compensation Restrictions in the Troubled Asset Relief Program

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For Immediate Release

**WASHINGTON, D.C. -** The Congressional Oversight Panel today released its February oversight report, "Executive Compensation Restrictions in the Troubled Asset Relief Program" (TARP). The Panel examined Treasury's efforts to implement restrictions on executive pay at TARP-recipient institutions and, in particular, examined the work of the Special Master for Executive Compensation, who was charged with setting executive pay at the recipients of exceptional taxpayer assistance: AIG, Bank of America, Chrysler, Chrysler Financial, Citigroup, General Motors, and GMAC/Ally Financial.

TARP compensation restrictions generally reflected the notion that, when a company accepts taxpayer money, its compensation practices must shift to take into account factors beyond the customary elements of executive pay. In particular, compensation should reflect the need for taxpayers to recover their investment, should recognize public frustration about taxpayer funds being paid to executives at bailed-out institutions, and should advance the public goal of stabilizing the financial system.

**Amidst intense media scrutiny and in a time of deep public anger, the Special Master achieved significant changes at the institutions under his review.** Overall compensation at the companies under the Special Master's jurisdiction fell by an average of 55%, and cash salaries were generally limited to $500,000. The Special Master also shifted compensation away from cash and toward stock. This was an important reform: it tied executives' own financial future to their firms' performance, encouraging them to think long and hard about the wisdom of their decisions. By requiring executives to hold their stock paid as salary for up to four years, the Special Master also encouraged executives to take a longer view of their companies' success.

**Unfortunately, the Special Master has fallen short in his far broader goal of permanently changing Wall Street's pay practices.** Because the Special Master released few details of his deliberations to the public, aspects of his decisions are essentially a "black box," and it would be impossible for a corporate compensation expert to duplicate his work. For example, the Special Master aimed to pay executives at rates similar to those at comparable companies -- but it is not clear which comparable companies he chose or why. Further, the Special Master did not always disclose to the public how he ranked different, conflicting goals when setting pay.

**The Special Master's focus on stock-based compensation may have created new incentive problems.** Stock-heavy compensation packages can, for instance, encourage executives to take excessive risks to drive up the value of their pay. The four-year timeframe for the redemption of stock payments may also be too short to determine whether an executive has truly created long-term value.

**The Special Master was also charged with examining pre-crisis executive compensation at TARP-recipient firms.** His decision not to seek to claw back any pay is questionable. Congress required the Special Master to seek to claw back any payments that were contrary to the public interest. Ultimately he found $1.7 billion in payments to be "disfavored" and "not necessarily appropriate" but not inconsistent with the public interest. By drawing such a fine distinction, the Special Master may have performed an end-run around his guidance from Congress. He may also have created the impression that the government condoned wrongful compensation to executives who contributed to the crisis.

**The Special Master's "one size fits all" approach to executive compensation may not have adequately recognized the differences between the firms within his jurisdiction.** The pay packages approved by the Special Master were quite uniform, even though his office was charged with overseeing institutions as diverse as the insurer AIG and the manufacturer General Motors. For example, his office generally limited cash salaries to $500,000 -- an amount that has very different ramifications for hiring and retention at an institution based in New York compared to one based in Michigan, given the widely varying costs of living.

The full report is available at cop.senate.gov.

*The Congressional Oversight Panel was created to oversee the expenditure of the Troubled Asset Relief Program (TARP) funds authorized by Congress in the Emergency Economic Stabilization Act of 2008 (EESA) and to provide recommendations on regulatory reform. The Panel members are former Senator Ted Kaufman; J. Mark McWatters; Richard H. Neiman, Superintendent of Banks for the State of New York; Damon Silvers, Policy Director and Special Counsel for the AFL-CIO; and Kenneth Troske, William B. Sturgill Professor of Economics at the University of Kentucky.*