Statement for Financial Services Committee hearing:

Compensation Structure and Systemic Risk

June 11, 2009

Thank you, Mr. Chairman

This is a very important hearing, which should help us understand why our financial system collapsed and what we can and need to do to prevent such a crisis in the future.

Recently, former Fed Chairman Paul Volker told us - very succinctly, I thought - that the demise of the financial services industry was the direct result of executive compensation being tied to more and more risk.

I could not agree more.

Now, I understand that the executives who run large financial institutions play an important and vital role in our economy. But the same can be said of emergency room doctors, teachers, firefighters and any number of hard-working, educated professionals who - no matter how many lives they save or young minds they expand or children they rescue - will never earn as much as a Wall Street executive drops between the couch cushions in his corner office. In fact, these crucial members of society will work a lifetime just to equal the amount of a single Wall Street bonus.

Yet, among the top executives of corporate America today, the expectation of million dollar bonuses is so pervasive that long-term performance of their

clients, hedge funds and corporations is rarely even taken into consideration. Instead, the reward comes from gaming this quarter's statement or next month's profit, encouraging deceitful - or, at best, wishful - accounting practices. To paraphrase the always poetic James Carville, "It's the culture, stupid!"

One only has to look to recent history to see the remarkable disconnect between performance and compensation. As financial markets were beginning to collapse in 2007, Wall Street's five largest firms paid a record $39 billion in bonuses. Common sense will tell us that the out-going CEO of Citigroup - who presided over the freefall of the company's value - did not deserve a $68 million exit package on top of his $1.7 million pension. Granted, it's not easy making $64 billion in market value disappear, but even David Copperfield doesn't get $70 million for that trick.

Meanwhile, dozens of top executives at AIG and Merril Lynch reaped bonuses in the millions while wading through puddles of red ink. What's more, despite the loud and angry public outcry, it is quite clear that many executives and boards of directors still don't get it.

Even now, it appears some TARP recipients are using accounting smoke and mirrors to make it appear that they're turning a profit so they can again take a ride on the bonus train this year. Recent reports claim that these companies are setting aside billions for that purpose, with some dramatically increasing base pay to get around bonus restrictions. There is a much-quoted old saying: "Those who do not remember the past are doomed to repeat it." In this context, I don't think

it's too much to say that Wall Street is praying that Congress does not remember the past so that they will be lucky enough to repeat it.

It is absolutely essential that we pass strong and real reform to ensure that the excesses of the past are not repeated over and over again.

I am not one that thinks Congress should dictate how much people are paid. But it is absolutely appropriate that we ensure that corporate boards of directors are accountable to their shareholders and not just to their fellow directors and executives. "Say on pay" is an important start, but not nearly enough. Boards of directors should have a fiduciary duty to protect their shareholders - both large and small - who are depending on the investments for retirement or their children's education, and they should have some liability for their decisions. In the interests of transparency and accountability, shareholders with a minimum ownership level must be given proxy access, directors should not be allowed to win an election with just one vote, and companies should be required to do no less than fully and clearly disclose all terms and forms of executive compensation and severance packages. Further, compensation committees need to be truly independent from management and not just a rubber stamp for predetermined increases designed to spare under-performing executives from the embarrassment of lagging behind peers in the salary race.

The United States did not invent banking or capitalism, but we seem to have mastered the art of over-payment. Compensation in most other countries, within the same industries, is well below the US. I would argue that is because, in

countries like the United Kingdom, shareholders have actual power and have kept much tighter control on excessive compensation.

Finally, any hearing on this issue would be a sham if we didn't admit that Congress shares much of the blame. I would also add financial regulators to that. It is imperative that we take strong and forward-looking legislative action that empowers effective and independent regulators who understand and accept that they represent the 90 million Americans who invest in capital markets. This is essential if we are committed to making sure that we do not see a repeat of this debacle.

Thank you Mr. Chair, I yield back.