



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Closing Statement of Sen. Chuck Grassley, Chairman

Finance Committee Hearing, "Executive Compensation: Backdating to the Future/Oversight of current issues regarding executive compensation including backdating of stock options; and tax treatment of executive compensation, retirement and benefits"

Wednesday, Sept. 6, 2006

I thank today's panelists. This has been a very informative hearing. I am a great believer in conducting oversight of the tax code and we need more of it from the press, GAO and the Inspector General. Clearly, we've learned today that 162(m) is broken. The 1993 law – part of a bill that I did not support or vote for, I should make clear – was meant by its advocates to deny tax deductions when there was a great deviation between what executives got paid and what people further down the ladder got paid. It was well-intentioned. But it really hasn't worked at all. Companies have found it easy to get around the law. It has more holes than Swiss cheese. And it seems to have encouraged the options industry. These sophisticated folks are working with Swiss watch-like devices to game this Swiss cheese-like rule.

I want to know what went wrong and consider whether it makes sense to make changes. Modifying the deduction for performance-based pay or at least tightening up the eligibility are possibilities I think members of the Finance Committee will want to consider based on comments made at this hearing. Today's hearing is helpful in sorting through the pros and cons of changing the deduction and possible alternatives. It's challenging for Congress to stay one step ahead of some companies that try to exploit tax loopholes faster than we can close them.

I will be reviewing today's record, submitted material and questions for the record to consider next steps. If we are going to keep this code section, I think a question that needs to be answered is whether it is equitable to treat high salaries of top executives at publicly traded companies differently than high salaries of other individuals.

We've also heard today troubling testimony about the wide disparity of treatment between regular workers and top executives when it comes to deferred compensation, pensions and health insurance. The President's panel on tax reform touched on some of these same issues as well and they deserve our close attention. Workers who make their living paycheck to paycheck have a right to expect fair tax treatment of their earnings, savings and retirement as compared to the boss.

Finally, I fear that we have a new set of problems behind this backdating – all the individuals who supported this illegal activity. This includes the board members, the attorneys, the accountants and the outside consultants who all either blessed or looked the other way when it comes to backdating. In response to this hearing, I intend to write to several major corporations that have been involved in the backdating of stock options. I want these corporations to provide me the board minutes regarding the decision to backdate as well as any and all material from advisors – including

attorneys, accountants and compensation consultants who assisted in these efforts. We need to understand and bring enforcement action against all the actors who were involved with this abusive scandal.