"PROXY RULES AND EXECUTIVE COMPENSATION"

OPENING STATEMENT OF

RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION

AT THE PUBLIC MEETING OF THE COMMISSION
WASHINGTON, D.C.

JUNE 23, 1992

U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

"PROXY RULES AND EXECUTIVE COMPENSATION"

OPENING STATEMENT OF
RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION

AT THE PUBLIC MEETING OF THE COMMISSION
WASHINGTON, D.C.

JUNE 23, 1992

Good morning. This is an open meeting of the Securities and Exchange Commission on June 23, 1992 to discuss proposals for two major sets of rule changes -- the regulation of communications among securityholders and the disclosure of executive compensation.

The widespread public ownership of corporations in America by over 50 million shareholders explains much of our long tradition of openness and public disclosure of vital information about our public companies. Yet in some ways, our very success in fostering broad public ownership has contributed to the problems of finding effective means of governing large and widely diversified companies.

In the United States, the board of directors is the linchpin of our system of corporate governance and the foundation for the legitimacy of actions taken by management in the name of shareholders. The board of directors has the access to

information and the power to provide meaningful oversight of management's performance in running a business.

Many shareholders have begun to question whether this theory of board representation conforms to practical reality. Some have come to believe that the election of directors and resolution of issues requiring a shareholder vote have become merely perfunctory exercises.

Admittedly, sometimes it is difficult for outsiders to guess what factors the board relied on in making decisions. This is particularly true in the area of compensation. When a company whose financial results have been sharply deteriorating or stagnating awards its executives huge pay increases, many people rightly ask, "Where were the directors?"

When a company underperforms its competitors significantly year after year, many ask, "Why doesn't the board make a change?" Not many baseball managers would stay on the job if their team finished in last place every year.

When a company whose stock has plunged in value "resets" the management's stock options to lower the strike price, many shareholders ask, "Who is the board representing?" That looks like the old game of "heads I win, tails you lose," because the management profits if it is successful, but it also profits if it

fails. Since the stockholders cannot "reset" the price of their investment, why should management be able to rewrite financial history?

Of course these questions are intensified where a company does not have a compensation committee composed exclusively of outside directors, or where there are "interlocking" memberships on compensation committees. In those cases the decisions may not have involved impropriety, yet the perception of a lack of independence in the decisionmaking is simply too strong to justify. Although this is not an area for the SEC to set absolute rules, we should expect more extensive disclosure of what is really going on when these potential conflict situations exist.

To remedy the perceived limitations of the current proxy process, last June the Commission proposed to amend the proxy rules to make it easier for groups of shareholders to communicate their views regarding companies to one another. The reproposals have two aims. These are (i) to encourage better informed proxy voting by permitting wider communications among securityholders, and (ii) to reduce the costs of complying with the proxy rules for persons engaging in proxy solicitations.

This morning we will also be discussing the Commission's proposals on executive compensation. All too often today, proxy

descriptions of compensation are lengthy, legalistic narratives that obscure rather than illuminate the most relevant facts. The Commission will seek to improve public disclosure of the facts, and the rationale that went into specific decisions.

The Commission's proposals are intended to provide security holders with a clear and concise presentation of the compensation paid to principal executives. The new rules are also intended to make clear the directors' reasoning in making fundamental compensation decisions. Under the proposals the compensation committee would have to disclose the specific factors of corporate performance that formed the basis for the board's decisions on senior management compensation.

Ultimately, compensation decisions must be made in the private marketplace. Market forces, and the views of all concerned parties -- management, directors and shareholders -- need to resolve these issues within each company in light of its specific circumstances. The Commission's rules should help enhance the workings of the market by improving the quality of information on decisionmaking, and by allowing more open debate and discussion within the company. By strengthening market forces, the overall governance system should provide meaningful accountability for poor results, and strong rewards for success.