Senate Banking Subcommittee on Securities, Insurance, and Investment
Hearing on "Protecting Shareholders and Enhancing Public Confidence by Improving Corporate Governance"
July 29, 2009

Opening Statement of Subcommittee Chairman Jack Reed, as prepared for delivery:

I want to welcome everyone, and thank all of our witnesses for appearing today.

Today's hearing will focus on corporate boardrooms and try to help us better understand the misaligned incentives that drove Wall Street executives to take harmful risks with the life savings and retirement nest eggs of the American people.

This subcommittee has held several hearings in recent months to focus on gaps in our financial regulatory system, including the largely unregulated markets for over-the-counter derivatives, hedge funds and other private investment pools. We have also examined problems that resulted from regulators simply failing to use the authority they had, such as our hearing in March that uncovered defective risk management systems at major financial institutions.

But although regulators play a critical role in policing the markets, they will always struggle to keep up with evolving and cutting-edge industries. Today's hearing will examine how we can better empower shareholders to hold corporate boards accountable for their actions, and make sure that executive pay and other incentives are used to help companies better focus on long-term performance goals over day-to-day profits.

Wall Street executives who pursued reckless products and activities they did not understand brought our financial system to its knees. Many of the boards that were supposed to look out for shareholder interests failed at this most basic of jobs. This hearing will help determine where the corporate governance structure is strong, where it needs improvement, and what role the federal government should play in this effort.

I will ask our witnesses what the financial crisis has revealed about current laws and regulations surrounding corporate governance, including executive compensation, board composition, election of directors and other proxy rules, and risk management. In particular, we will discuss proposals to improve the quality of boards by increasing shareholder input into board membership and requiring annual election of, and majority voting for, each board member.

We will also discuss requiring "say-on-pay", or shareholder endorsements of executive compensation. We need to find ways to help public companies align their compensation practices with long-term shareholder value and, for financial institutions, overall firm safety and soundness. We also need to ensure that compensation committee members—who play key roles in setting executive pay—are appropriately independent from the firm managers they are paying.

Other key proposals would require public companies to create risk management committees on their boards, and separate the chair and CEO positions to ensure that the CEO is held accountable by the board and an independent chair.

I hope today's hearing will allow us to examine these and other proposals, and take needed steps to promote corporate responsiveness to the interests of shareholders. I welcome today's witnesses and look forward to their testimony.