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*The views expressed herein are those of Commissioner Schapiro and do not necessarily represent those of the Commission, other Commissioners or the staff.

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I. Introduction

Good morning. It is a pleasure to be here and a particular honor to appear with such a distinguished group of speakers. While we are only one-quarter into 1992, this is already proving to be an exceptionally interesting year in the corporate and regulatory world. Certainly, the political interest in this election year in issues such as executive compensation, international competitiveness, access to capital markets and deregulation has both helped us to focus our attention on important and complex issues and, as only politics can do, obfuscated those issues, as well.

I would like to talk this morning about two important pieces of the current debate - the first - executive compensation - has lots of political currency, the other - the role of the Board of Directors - has less mass appeal but in my view goes to the heart of the viability of our public companies.

II. Executive Compensation

When I last discussed the Commission's proposals on executive compensation, I felt it necessary to reassure the American Society of Corporate Secretaries that the Chairman's announcement was only a proposal, in fact just a plan for a proposal, that would have to go through extensive staff development and public notice and comment. I also said that the proposals will present a modest and measured response to the issue of executive compensation disclosure, a response that would remain faithful to the goal of Reg. S-K of providing complete and understandable corporate disclosure. I repeat those thoughts now, fully aware that you may not feel the same sense of reassurance from a reminder of the deliberateness of the regulatory process or the limited scope of the Commission's proposals.

The Commission and staff continue to analyze the issues involved with executive compensation. There have been no philosophical shifts since the Commission's February announcements, but I must warn you that the form of the proposals are dynamic documents, and any details discussed today, or earlier, may change form when the Commission issues its proposals for public comment.

Briefly, the proposals will not and should not stray from our belief that the federal securities laws and the Commission itself have no place in setting the appropriate level of executive salaries. Boards of Directors, motivated by market forces, should be the primary determiner of executive pay.

Perhaps, however, those forces could be made more efficient. At the heart of the Commission's proposal is a move away from the pages and pages of narrative disclosure currently required toward more easily read graphs and tables. The proposal envisions a summary table, requiring separate columns for: (1) salary and fees; (2) bonuses and short term cash incentives; (3) bonus stock and restricted stock awarded during the year; and (4) the market value of options and stock appreciation rights granted during the year. The proposal also would require the Board to explain, textually, its criteria for awarding executive compensation. It is our hope that these changes will make it easier for shareholders to understand and evaluate the compensation determinations made by the Board, thereby facilitating market analysis of compensation decisions.

The proposals envision a summary chart containing comparative information from the prior two years. Despite its benefits, I would object to making this feature retroactive. Tables produced in the first year after adoption should contain information about that year only, followed the next season by a two year table, before complete implementation of the three year table. To suggest otherwise, in my opinion, would require costly reviews and recalculations, particularly during the first year, the burdens of which would outweigh the benefits.

Other issues that raised questions in the wake of the Chairman's announcement have included the valuation of stock options and stock appreciation rights, and the prominence of a proposed chart, portraying the relationship between CEO compensation and shareholder wealth.

As to the first, the Commission understands that uniformity in calculation of present value is important. Without a uniform system of calculation, shareholders would be hard pressed to make useful comparisons between the compensation practices of companies. Such uniformity also would ease the burden on issuers in calculating such rights, and likewise simplify the enforcement of disclosure requirements. Nonetheless, despite the obvious benefits of assigning and disclosing a value to option grants, getting there will not be easy. The Commission has already received thoughtful comments about this possible proposal. Several comments noted that, even at its most precise, a calculation of present value is at best conjectural.

Other commentators have claimed that out-of-the-money options have no current value, and that it is unnecessary to calculate a figure for them.

For me, the question of the shareholder wealth chart is equally interesting. The intent behind the proposal, regardless of the ultimate format, is the disclosure of what links exist between performance and compensation. It isn't difficult, however to predict a rash of letters from the issuer community during the comment process, expressing the belief that such a chart would be too inflammatory or misleading to serve as useful disclosure. I agree that care must be taken to ensure that the format does not oversimplify the issue of the relationship between CEO pay and corporate health. I do, however, look forward to comments on this issue from investors, institutional as well as individual. Only by receiving input from the prospective readers of these documents can the Commission make the chart a useful disclosure tool.

Although it is still early in the process, I believe that these compensation-related changes will be positive ones. They won't represent a radical change in the information that current requirements are intended to provide. But they will, hopefully, make the information more useful and readable, and thereby make more efficient the market forces affecting executive compensation.

III. The Role of the Board of Directors and Shareholder Oversight Committees

As we all know, issues of competitiveness, management performance, and management compensation continue to occupy columns in the newspapers and the thoughts of conference speakers. Any attempt to sort through such issues generally leads to what many regard as the central link in the complex web of interdependent interests that comprise the modern American corporation, namely, the Board of Directors.

Under the US scheme of corporate governance, it is the Board that ultimately is responsible for successful execution of the goals, directions, and strategies of the corporation fixed by senior management. Moreover, the Board is responsible for monitoring the performance of management on behalf of the shareholders, and itself is held accountable to the shareholder body -- both legally, as a fiduciary, and practically, through the corporate electoral process.

Contemporary critics argue that notwithstanding this apparently well-ordered theoretical scheme of checks and balances mediated by the Board, the US governance model is fundamentally defective in operation, particularly in comparison to the German and Japanese models under which our foreign competitors have flourished. I believe that our Board-centered model of corporate governance can function effectively to safeguard the interests of shareholders, while at the same time ensuring the US corporation's continued ability to compete in a rapidly globalizing marketplace. And, I believe that these two goals - the protection of shareholders and the profitability of the corporation, are inextricably linked. For without the assurance that their fundamental rights as owners are protected by the director/fiduciaries, independent of management, shareholders are unlikely to continue to bear the risks associated with equity investment in American business.

In this regard, there are lots of interesting ideas currently being debated for improving the effectiveness of Boards of Directors and enhancing their role as agents for reform of the flaws in the corporate governance system. Many of these ideas require no action on the part of the SEC or the Congress to effectuate. The only catalyst that is needed is the willingness of shareholders and management to engage in honest debate about their merits. I do not suggest that these ideas would all ultimately prove to be worthy but, only that they perhaps deserve some greater scrutiny and debate.

For example, the concept of full-time, professional directors, separation of the positions of CEO and Chairman of the Board, annual performance review of the CEO by the Board (a la Dayton-Hudson), discouraging interlocking Boards, having a majority of outside directors on the Board, independent nominating and compensation committees, and creation of shareholder advisory committees are ideas worth exploring.

Let me hit and run on all those ideas except the last, and focus on the attempt by shareholder activists to create panels or committees, populated by shareholders, to oversee the actions of the Board.

The Commission recently addressed this issue in the context of an interpretation of Rule 14a-8. As you well know, Rule 14a-8 allows an issuer to exclude a proxy proposal submitted by a shareholder if the proposal falls into one of a number of exceptions. The rule has gotten most of its attention in connection with proposals related to social issues or questions regarding maintaining business contacts in controversial countries such as South Africa.

A proxy proposal to add to the corporate by-laws a provision for the creation of a committee of shareholder representatives was submitted by Robert Monks to Exxon Corporation.
The proposal, if approved by shareholders, would require the creation of a three person shareholder board that would be responsible for reviewing the management of the business and affairs of the corporation by the Board of Directors. Only shareholders who have owned in excess of $10 million of stock continuously for three years would be eligible for election. The committee would be able to engage expert assistance at the expense of the corporation, at a cost not to exceed a penny per share outstanding. The committee also would have the opportunity to include in the company's proxy statement a report evaluating the performance of the Board during the previous year.

The Commission's staff concluded that the proposal could not be excluded from the proxy materials pursuant to Rule 14a-8. Exxon chose to include the proposal and not appeal the staff determination to the Commission. Although I was spared the opportunity to review the staff's decision, I believe that their interpretation was correct. But, that conclusion is more a reflection of my philosophy of inclusion of business-related shareholder proposals than it is an endorsement of this specific proposal.

First, let me say that the concept of increasing the efficiency of the Board by improving Board-shareholder communication is not just laudable, it is, in fact, absolutely necessary. But, I must confess to some unease with a provision that so clearly distinguishes between institutional and individual shareholders, and impliedly reaches a conclusion that the interests of both groups cannot effectively be served by the Board of Directors. I am also troubled by the institution of an oversight board that has absolutely no clearly defined duties. Frankly, if a shareholder advisory committee is necessary, then the Board is not doing its job and rather than add another layer, wouldn't it be better to fix the problem with the Board? Even if shareholder advisory committees can serve a useful function, I hold out hope that there are more efficient ways of improving communication, and strengthening ties between shareholders and the Board, short of creating a "shadow" Board of Directors. Have we really done all that we can to empower Boards so that all that's left to do is to create a new layer of bureaucracy? I think not and I believe that what happened this week at General Motors is evidence that Boards, and outside directors in particular, can be highly effective and forceful vehicles for change.

An appreciation on the part of Boards of their power and a willingness to exercise it is perhaps the most important catalyst for change in the post-takeover world of the 1990s. But there are also steps the Commission can take to improve effectiveness of Boards, and enable shareholders to have greater input into the decision of who represents them. Quite honestly, the ability to vote for directors would be more meaningful coupled with some ability to influence the nomination process. In this regard, there is one idea in particular, not contained in the Commission's current proxy reform proposals, which I believe has real merit and is worth our examining in greater detail. Ron Gilson, Lilli Gordon and John Pound have recently written about modifying the bona fide nominee rule to make minority board representation a more realistic and constructive alternative to full-blown change of control. As Gilson, et al point out, there are regulatory barriers to proposing and electing a minority of directors that ironically make it more difficult than engaging in a proxy contest to replace the entire board.

This "short slate" problem is presented when a dissident seeks to nominate only a couple of directors and shareholders are forced to split their ticket, making it mathematically nearly impossible for the dissident slate to win despite receiving the support of a majority of shares.

The "fix" is a rather simple one. The current bona fide nominee rule in essence makes it impossible for a dissident to run a full slate by including in his proxy management's nominees along with his own. His choices are thus to run a either a short slate or run a full slate of dissident nominees and hence engage in a contest for control. As Gilson et al point out, there are a number of partial solutions to this problem, but the easiest and probably the best is to change one word in the bona fide nominee rule to allow a candidate's name to be included on the proxy of any soliciting party - not just management's proxy. The result would be that shareholders could vote - on one proxy - for a full slate of directors. Rather than escalate the desire for a greater voice on the Board to a battle for control of the corporation, the constructiveness of an approach such as this ought to be explored by the Commission.

IV. Conclusion

If American corporations are to compete globally in the 21st century, we must renew our commitment to good and effective corporate governance. The activism of institutional shareholders has been an important prod in this process and I encourage you to continue on the course of constructive engagement.

Thank you.