



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

<http://finance.senate.gov>

## MEMORANDUM

To: Reporters and Editors  
Re: Hearing on executive compensation including stock options backdating  
Da: Friday, Aug. 25, 2006

There have been a number of recent newspaper stories about corporate executives finding ways to compensate themselves to skirt the federal tax on compensation that is not performance-based. The most well-publicized of these methods is the backdating of stock options, in which executives wait until after the fact to pick a date for their stock options, then pick the low point of the stock during the year to maximize their profit. The tax code governs certain aspects of executive compensation and imposes a tax unless the pay (more than \$1 million) is performance-based compensation. In response to the tax, there has been a big upswing in stock options to compensate corporate executives. In June, Sen. Chuck Grassley, chairman of the Committee on Finance, with jurisdiction over taxes, convened a hearing to explore various compliance concerns in the corporate tax arena and asked the Justice Department's witness to explain the agency's investigation of stock options backdating.

Chairman Grassley will convene a hearing exclusively on executive compensation on Wednesday, Sept. 6, at 10 a.m. in 215 Dirksen Senate Office Building. The working title is, "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." The first panel will include the Justice Department deputy attorney general; IRS Commissioner Mark Everson; and a senior official from the Securities and Exchange Commission. This panel will focus on the government's response to stock options backdating and other issues regarding executive compensation, including 162(m) -- the million-dollar deduction rule -- as well as transparency issues. The second panel will consist of academics and interested groups, giving additional perspective on backdating and 162(m) as well as providing an overview of executive compensation, retirement and benefits, and how they are treated under the tax code. Chairman Grassley is exploring the extent of abuse of executive compensation tax restrictions with an eye toward possible legislation. He made the following comment on the issue.

"It's one thing for an executive to make big profits because he's improved his company, but it's a whole different thing to make big profits because he's playing fast and loose with the books. Outside the corporate suite, Americans don't get to pick and choose how much of their employer-provided income is taxed. Their employers report their salaries to the IRS and that's that. It's frustrating to think that after the corporate scandals of recent years, some executives are still looking for ways to take unfair advantage for personal gain. On top of that, it looks as though boards of

directors are approving bad deals without shareholder approval. On the backdating of stock options, the federal government needs to take a hard look at that problem. I continue to ask federal officials to let me know whether the current tax laws are adequate to rein in and prosecute stock options backdating. If the tax laws are inadequate on stock options backdating, I want to beef them up.

“At the September 6 hearing, I’m especially interesting in hearing the panelists’ views on the adequacy and the appropriateness of the current tax treatment of executive compensation, including perks and retirement benefits. I want to find out more about the effectiveness of the tax code, as well as how improved transparency for shareholders could address concerns about executive compensation abuse.”