



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 13, 2007

H.R. 1257 **Shareholder Vote on Executive Compensation Act**

As ordered reported by the House Committee on Financial Services on March 28, 2007

H.R. 1257 would require all companies that trade stock on public exchanges to allow shareholders to vote annually to approve the compensation received by executives. Additionally, public companies, in the event of a proposed sale, acquisition, merger, or consolidation, would be required to allow shareholders to vote on compensation agreements between the entity acquiring the company and principal executive officers of the company to be acquired. In either case, the results of the shareholder votes would not be binding on the board of directors, and would apply only to shareholders' meetings occurring on or after January 1, 2009. The bill would require the Securities and Exchange Commission (SEC) to develop regulations to implement the bill's requirements.

Based on information from the SEC, CBO estimates that implementing H.R. 1257 would cost about \$1 million in 2008 to develop regulations, and less than \$500,000 per year thereafter to review and monitor compliance by companies affected by the regulations. Such spending would be subject to the availability of appropriated funds; enacting the bill would not affect direct spending or receipts.

H.R. 1257 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

H.R. 1257 would impose private-sector mandates, as defined in UMRA, on publicly traded companies and entities making certain proposals by proxy solicitation. The bill would require them, beginning on January 1, 2009, to allow a nonbinding vote by shareholders on certain executive compensation and to make certain disclosures related to such compensation. Based on information from industry and government sources, CBO estimates that the cost to comply with those mandates would fall below the annual threshold established by UMRA (\$131 million in 2007, adjusted annually for inflation).

According to government sources, about 6,000 publicly traded companies would be required to provide shareholder votes on executive compensation each year. The cost of the mandate would be the expenditure to cover any additional programming, paper, printing, postage, and

tabulation to allow for the shareholder vote. Based on information from industry and government sources, CBO expects that the incremental cost to provide shareholder voting would fall well below the annual threshold for private-sector mandates.

The bill also would require any entity making a proposal by proxy solicitation regarding an acquisition, merger, sale, or other disposition of substantially all the assets of an issuer, to disclose in the solicitation materials any agreements or understandings concerning any type of compensation, such as golden parachutes, related to the disposition. In addition, the bill would require those entities to allow a separate shareholder vote to approve such agreements or understandings in the proxy solicitation materials containing the disclosure. According to industry and government sources, such proxy solicitations occur infrequently. Therefore, CBO expects that the incremental cost for the industry to provide the disclosures and shareholder voting would be minimal.

The CBO staff contacts for this estimate are Susan Willie (for federal costs), who can be reached at 226-2860, and Paige Piper/Bach (for the private-sector impact), who can be reached at 226-2940. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

April 13, 2007

Honorable Barney Frank
Chairman
Committee on Financial Services
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 1257, the Shareholder Vote on Executive Compensation Act.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Susan Willie, who can be reached at 226-2860.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter R. Orszag'.

Peter R. Orszag

Enclosure

cc: Honorable Spencer Bachus
Ranking Member