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# Pay for the Chief: The Shareholders Speak Out

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Among the many elements of the comprehensive reform applicable to public companies in the **Dodd-Frank Consumer Fraud and Protection Act** (“Dodd-Frank”), shareholders were given new and additional powers with respect to compensation paid to companies’ executives, the so-called “say-on-pay” rules.

The “say-on-pay” rules require companies to include a non-binding shareholder vote on the compensation for the named executive officers disclosed in the proxy statements at least every three years. Companies are also required to allow non-binding shareholder votes at least once every six years to determine the frequency of future“say-on-pay” votes. Until a few days ago, little was heard of shareholders refusing to approve executive pay packages. Indeed, last year, only 2% of shareholders refused to approve executives’ compensation packages.

On April 18, 55% of Citibank’s voting shareholders refused to approve the compensation plan for Citibank’s top five executives, including its Chief Executive Officer. Of chief concern to the shareholders was Citibank’s poor performance, not the amount of the pay. While non-binding, the shareholders’ vote sent a clear signal not just to Citibank but also to the market that compensation must be aligned with company performance. Even if the shareholders do not have the power to control the amount of pay to the executives, the potential for these public rebukes to change corporate culture concerning executive pay cannot be underestimated — for both public and private companies.



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