THE 23RD ANNUAL EXECUTIVE EXCESS REPORT

THE WALL STREET CEO BONUS LOOPHOLE

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Contents

Key findings.. 1

Introduction... 3

Taxpayer subsidies for the CEO bonus loophole 4

The myth of "pay for performance" 7

Annual IPS executive pay reform scorecard.. 11

Appendix 1: Top 20 U.S. banks, 2015 bonus subsidies 23

Appendix 2: Sources and methodology... 28

Endnotes.. 29

Key Findings

The more U.S. corporations hand out in CEO bonuses, the less they pay in taxes. This is the result of a loophole that allows firms to write off unlimited amounts of executive pay from their federal taxes, as long as it is in the form of so-called "performance-based" compensation.

Wall Street banks lost this lucrative CEO pay subsidy when they received taxpayer-funded bailouts in the wake of the 2008 crash, but only until they repaid the funds. Many of them rushed to do so, borrowing in the private market in order to escape this and other public bailout-related pay controls.[1] While homeowners and shareholders were still suffering, the banks were free once again to dole out massive bonuses and write off the entire cost, leaving ordinary taxpayers to make up the difference.

Taxpayer subsidies for Wall Street CEO bonuses

- After getting out from under the bailout limits on deducting executive compensation, the top 20 U.S. banks paid out more than $2 billion in fully deductible performance bonuses to their top five executives between 2012 and 2015. At a 35 percent corporate tax rate, this translates into a taxpayer subsidy worth more than $725 million over the four-year period, or $1.7 million per executive per year on average.

- The Wall Street CEO who received the most in tax-deductible bonuses is John Stumpf of Wells Fargo. Between 2012 and 2015, years in which the bank faced $10.4 billion in misconduct penalties, Stumpf pocketed more than $155 million in fully deductible performance pay.[2] This works out to $54 million in tax subsidies for Wells Fargo — just for one man's bonuses.

The myth of "pay for performance"

Forms of pay that qualify for the bonus loophole include stock options as well as cash bonuses and stock grants tied to specific targets, such as total shareholder returns. These forms of compensation are supposed to ensure "pay for performance." In reality, they have encouraged the kind of reckless behavior that caused the 2008 crisis by creating the potential for unlimited jackpots with little downside risk. After the crash, with much of the rest of the nation still reeling, Wall Street CEOs quickly began cashing in on crisis windfalls.

- Between 2010 and 2015, the top executives at the 20 leading U.S. banks pocketed nearly $800 million in stock-based "performance" pay— *before* the value of their firm's stock had returned to pre-crisis levels. In other words, with shareholders who had held on to their

stock still in the red, executives were reaping massive rewards that their banks could then deduct off their taxes.

While pocketing huge tax-deductible bonuses, many of these executives were racking up massive fines for financial misconduct and pushing vast numbers of homeowners into foreclosure.

- **JPMorgan Chase CEO Jamie Dimon** cashed in $22.9 million in stock options in February and March 2010, at the peak of the foreclosure crisis, and when the firm's stock was trading around 15 percent lower than at the beginning of the bear market in October 2007. Since 2010, the bank has racked up more than $28 billion in mortgage and other financial misconduct settlement fees, the 2nd highest of any U.S. bank.[3]

- **Wells Fargo CEO John Stumpf** received a generous performance-based stock grant at the end of 2009. By the time the stock vested on March 1, 2013, his board decided Stumpf had performed so superbly he should get even more shares than the maximum set in the original 2009 grant, boosting his total reward to $21.4 million. At that time, Wells Fargo stock was worth less than before the stock market slide and the bank was holding nearly 85,000 mortgage loans in foreclosure.[4]

- **PNC Financial CEO James Rohr** received more than 290,000 stock options in the dark days of early 2009, when the bank's stock price was less than half pre-crisis values.[5] A $7.6 billion taxpayer bailout helped inflate Rohr's options to $22.4 million by the time he cashed them in on April 25, 2013.[6] Meanwhile, long-term stockholders were still in the red and the firm faced $222 million in fees to settle mortgage and foreclosure misconduct cases.[7]

- **Capital One Financial CEO Richard Fairbank** also received a generous grant of performance shares in early 2009 when the bank's stock was near rock-bottom. When the shares vested in 2012, Fairbank reaped $6.8 million.[8] The following year, he made an even bigger haul, pocketing $9.9 million in performance shares and $5.1 million in options – all before the bank's stock value had fully recovered.

- **American Express CEO Kenneth Chenault** raked in the largest amount of stock-based "performance" pay of any Wall Street CEO before his firm's stock regained pre-crisis levels in 2014. Between 2010 and 2013, Chenault cashed in a total of $68.8 million in exercised options and vested performance shares.

While the CEO bonus loophole is particularly problematic for Wall Street, where the reckless "bonus culture" is still rampant, taxpayers should not have to subsidize excessive executive compensation at any U.S. corporation. One poll showed 63 percent of Americans were in favor of eliminating this loophole, and legislation to do so has been introduced in both houses of the U.S. Congress.[9]

Introduction

In the wake of the 2008 financial crash, policymakers felt pressure to prevent taxpayer-funded bailout money from enriching the Wall Street executives who had just driven the economy off a cliff. As a condition of receiving these bailout funds, the banks therefore had to accept a number of executive pay restrictions, including a tight cap on the tax deductibility of executive compensation.

Previously, these firms could take advantage of a huge loophole in Section 162(m) of the tax code, which limits deductions at all publicly held firms to $1 million per executive — unless the pay is in the form of stock options or other compensation deemed "performance-based." This CEO bonus loophole has been a major factor in the explosion of executive compensation since the adoption of 162(m) in 1993. Because it allows corporations to lower their tax bills by increasing their executive compensation, it has served as a perverse incentive for excessive pay.

The Troubled Asset Relief Program lowered the executive pay deductibility cap for bailed out firms to $500,000 per executive, with no exceptions. For this set of firms, the IRS would not consider any pay above that level a reasonable business expense worthy of a tax deduction. In 2010, lawmakers established the same loophole-free cap for health insurance companies and made it permanent through the Affordable Care Act legislation.

But for the bailed out banks, this tight deductibility cap and other bailout-related pay controls only applied until they paid back their bailout funds. And like junkies desperate for a fix, many of them rushed to do so, borrowing in the private market to pay back public loans in order to restart the unfettered flow of Wall Street bonuses. Taxpayers who'd bailed out the banks would once again have to subsidize these fully deductible CEO bonuses.

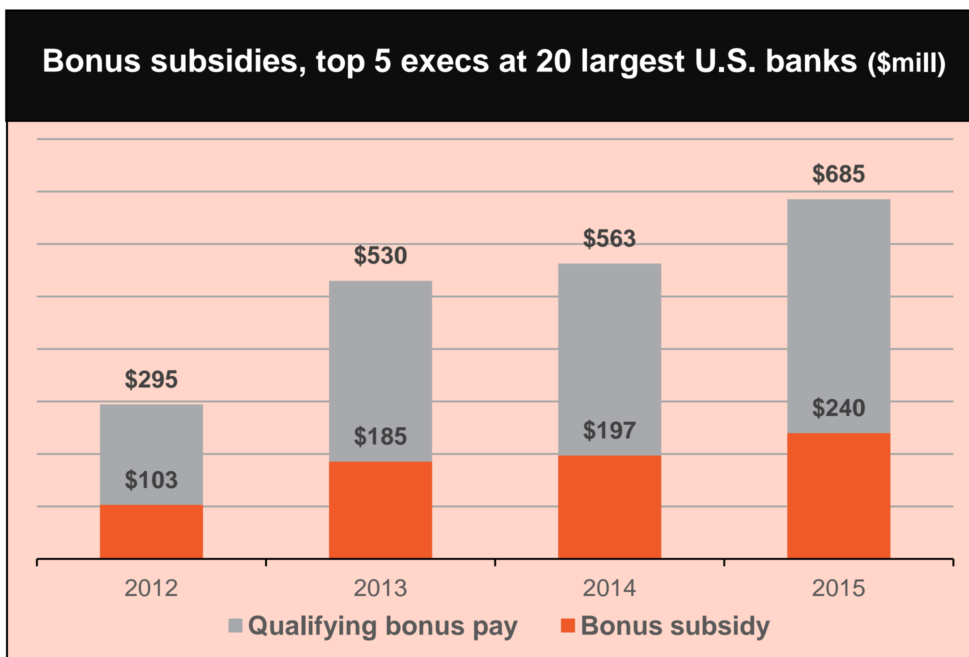
As this report makes clear, the TARP CEO pay conditions were well-intentioned but too short-lived. The real bailout windfalls would come in subsequent years, when Wall Street executives began cashing in stock-based pay inflated by taxpayer support. In effect, those most responsible for the crash were best-positioned to rebound. As for the 9.3 million American families who lost property during the housing crash, only 10.2 percent had been able to buy homes again by 2015, according to the National Association of Realtors.[10]

Taxpayers should not have to subsidize massive CEO bonuses at any firm. But such subsidies are particularly troubling when they are propping up a pay system that continues to encourage the high-risk, short-termist behavior which caused one devastating national crisis — and could cause more in the future.

Taxpayer subsidies for Wall Street CEO bonuses

After getting out from under the bailout limits on deducting executive pay, the top 20 U.S. banks paid out more than $2 billion in fully deductible performance bonuses to their top five executives between 2012 and 2015. At a 35 percent corporate tax rate, this translates into a taxpayer subsidy worth more than $725 million, or $1.7 million per executive per year. That $725 million could've covered the cost of hiring 9,000 elementary school teachers or creating 13,000 infrastructure jobs for a year.[11]

Overall, the financial bailout restrictions on the tax deductibility of executive bonuses applied to a total of more than 700 banks.[12] Thus, it's realistic to assume that if the bonus loophole had remained closed for all employees at all of these banks, the federal government would have collected at least $1 billion in additional revenue over the past four years.



Source: Institute for Policy Studies analysis, based on corporate proxy statements and Form 4 reports.

Bonus payouts have steadily risen as stock-based grants have ballooned in value since the crash and become "in-the-money." Typically, performance share awards vest after three years and stock options become exercisable after four years — at which point they are taxable for the firm.

Another factor in the bonus subsidy increase is the trend among large corporations to replace time-based stock grants, which do not qualify for unlimited tax deductibility, with

performance-based stock grants that do qualify. Among the top 20 U.S. banks, the share of vested stock that is performance-based has risen from about 5 percent in 2010 to 50 percent in 2015. This trend has not done much to improve performance, but it has greatly increased corporate subsidies from the CEO bonus loophole.

Wells Fargo was the largest beneficiary of the CEO bonus loophole, with nearly $160 million in tax subsidies for their top five executives over the 2012-2015 period.

Top 20 U.S. Banks, ranked by bonus subsidies related to their top five executives, 2012-2015

Bank	Compensation above $1 million that qualifies for bonus deduction ($thousands)	Value of bank's bonus subsidies, ($thousands)
WELLS FARGO	456,820	159,887
AMERICAN EXPRESS	265,108	92,788
GOLDMAN SACHS	216,661	75,831
DISCOVER FINANCIAL	130,583	45,704
PNC FINANCIAL	129,417	45,296
CAPITAL ONE FINANCIAL	126,153	44,153
BANK OF AMERICA	104,898	36,714
U S BANCORP	100,792	35,277
BANK OF NEW YORK MELLON	84,859	29,701
STATE STREET	74,724	26,154
JPMORGAN CHASE	61,520	21,532
CITIGROUP	53,714	18,800
BB&T	52,494	18,373
MORGAN STANLEY	48,294	16,903
SUNTRUST BANKS	36,053	12,618
NORTHERN TRUST	33,289	11,651
KEYCORP	32,456	11,359
REGIONS FINANCIAL	30,548	10,692
FIFTH THIRD BANCORP	25,580	8,953
M & T BANK	9,289	3,251
Total	**2,073,252**	**725,638**

Source: Institute for Policy Studies analysis, based on corporate proxy statements and Form 4 reports.

Note: These figures represent realized "performance-based" pay that was taxable in the year surveyed. This differs from the total compensation figures reported in the summary table of corporate proxy statements, which include the grant date value of stock and options awards, as well as salary, perks, discretionary cash bonuses, the change in pension value and non-Qualified deferred compensation earnings, and annual incentive pay. For big U.S. bank CEOs, total compensation in 2015 increased 7.6 percent to an average of $13.1 million per executive.[13]

The Wall Street CEO who received the most in tax-deductible bonuses is John Stumpf of Wells Fargo. Between 2012 and 2015, Stumpf pocketed more than $155 million in performance pay ($151 million in just the past three years). This one man's bonuses translated into $54 million in tax subsidies for Wells Fargo.

CEOs of Top 20 U.S. Banks, Ranked by Total Deductible Bonuses, 2012-2015

CEO	Bank	Compensation above $1 million that qualifies for bonus deduction ($thousands)	Value of bank's CEO bonus subsidy ($thousands, based on 35% tax rate)
John G. Stumpf	WELLS FARGO	155,019	54,257
Kenneth I. Chenault	AMERICAN EXPRESS	123,830	43,341
Richard D. Fairbank	CAPITAL ONE FINANCIAL	65,386	22,885
David W. Nelms	DISCOVER FINANCIAL	49,830	17,441
Lloyd C. Blankfein	GOLDMAN SACHS	48,611	17,014
Richard K. Davis	U S BANCORP	40,422	14,148
William S. Demchak*	PNC FINANCIAL	34,278	11,997
James E. Rohr*	PNC FINANCIAL	29,481	10,318
Gerald L. Hassell	BANK OF NY MELLON	22,697	7,944
Joseph L. Hooley	STATE STREET	22,599	7,910
Kelly S. King	BB&T	22,580	7,903
O. B. Grayson Hall, Jr.	REGIONS FINANCIAL	17,330	6,066
William Henry Rogers	SUNTRUST	15,836	5,543
James Dimon	JPMORGAN CHASE	15,173	5,310
Beth E. Mooney	KEYCORP	14,236	4,983
Frederick H. Waddell	NORTHERN TRUST	13,087	4,580
James P. Gorman	MORGAN STANLEY	11,506	4,027
Kevin T. Kabat	FIFTH THIRD BANCORP	8,506	2,977
Brian T. Moynihan	BANK OF AMERICA	7,022	2,458
Michael L. Corbat*	CITIGROUP	4,116	1,441
Robert G. Wilmers	M & T BANK	1,000	350
Vikram S. Pandit*	CITIGROUP	0	0
Total		**722,543**	**252,890**

Source: Institute for Policy Studies analysis, based on corporate proxy statements and Form 4 reports.

*At PNC, Demchak replaced Rohr in April 2013. At Citi, Corbat replaced Pandit in 2013.

The myth of "pay for performance"

To qualify for the bonus loophole, executive pay must be in the form of stock options, which are deemed to be "performance-based" because they only become valuable if share prices rise, or in the form of cash bonuses or stock grants tied to "performance" targets. Typical benchmarks include total shareholder return or earnings-per-share growth compared to peer groups. These targets, the argument goes, align the interests of executives and shareholders and ensure that executives only do well if they "perform."

In reality, this system has not performed well for anyone except the executives. After the loophole entered the tax code in 1993, corporate boards started handing out massive quantities of fully deductible stock-based pay, creating the potential for massive jackpots with little downside risk for the executives. This encouraged reckless executive behavior to boost short-term stock prices, without regard for the costs to shareholders, borrowers, and the broader society.

Performance for Whom?

Between 2010 and 2015, the top five executives at the 20 leading U.S. banks pocketed nearly $800 million in stock-based "performance" pay — *before* the value of their company's stock had returned to pre-crisis levels.

The 2008 financial crisis is just the most extreme example. As they were steering the financial system towards the 2008 crash, Wall Street executives pocketed massive performance bonuses. Before their firms collapsed, Lehman Brothers and Bear Stearns executives cashed out a combined $2.4 billion in bonuses and stock between 2000 and 2008, most of it "performance-based."[14]

Shortly after the crash, Wall Street CEOs quickly began rebuilding their massive fortunes — while shareholders were still suffering losses and while millions of Americans who'd lost their homes were still struggling to recover.

Between 2010 and 2015, the top executives at the 20 leading U.S. banks pocketed nearly $800 million in stock-based "performance" pay — *before* the value of their company's stock had returned to pre-crisis levels. In other words, with shareholders who had held on to their stock still in the red, executives were reaping massive rewards that their banks could then deduct off their taxes.

Shareholders are continuing to pay a high price for executive recklessness in the form of settlement payments. Since the crash, the top 20 U.S. banks have accumulated more than $128 billion in fees and fines for financial misconduct, according to Good Jobs First.[15]

CEOs Who Pocketed the Largest Amounts of Stock-based "Performance Pay" Before Their Bank's Share Price Regained Pre-Crisis Levels				
Pre-crisis stock price (10/9/07)	**Type of grant (O=options, PS=performance shares)**	**Stock price at option exercise/stock vesting**	**Date of exercise/vesting**	**Value realized ($thousands)**
James Dimon, JPMorgan Chase				
47.57	O	40.635 & 45.57	2/3/2010 & 3/25/2010	$22,942
47.57	O	44.285	1/19/2011	$386
47.57	O	40.555	3/2/2012	$4,313
			total	**$27,641**
James Rohr, PNC Financial Group				
71.58	PS	54.66	2/9/2010	$1,919
71.58	PS	63.44	2/8/2011	$2,544
71.58	PS	59.53	3/9/2012	$1,396
71.58	PS	60.45	2/9/2012	$691
71.58	PS	69.253	4/25/2013	$22,401
71.58	PS	61.88 & 63.42 & 63.59	1/28/2013 & 2/7/2013 & 2/9/2013	$4,075
			total	**$33,026**
John Stumpf, Wells Fargo				
37.12	PS	35.39	3/1/2013	$21,380
37.12	O	35.13	2/1/2013	$593
			total	**$21,973**
Kenneth Chenault, American Express				
62.52	O	42.02	11/3/2010	$8,478
62.52	PS	37.79	1/25/2010	$3,925
62.52	PS	44.46 and 44.38	1/26/2011 & 1/31/2011	$5,896
62.52	O	53.43	2/28/2012	$13,429
62.52	PS	49.98 & 59.07	1/26/2012 & 1/27/2012	$10,989
62.52	O	61.85	2/8/2013	$9,927
62.52	PS	59.07	1/28/2013	$16,123
			total	**$68,767**
Lloyd Blankfein, Goldman Sachs				
239.2	O	149.49-151.99	8/11/2010	$6,019
239.2	O	123.91-125.09 & 117.12-120.77	10/17-18/2012 & 11/26-28/2012	$5,979
239.2	O	205, 215, & 187-190.6	5/18/2015 & 6/19/2015 & 11/23-25/2015	$16,999
			total	**$28,997**
Richard Fairbank, Capital One Financial				
72.01	PS	45.75	1/31/2012	$6,760
72.01	PS	54.98	3/11/2013	$9,895
72.01	O	70.45	11/14/2013	$5,104
			total	**$21,759**

Source: Institute for Policy Studies analysis, based on corporate proxy statements and Form 4 reports.

Wells Fargo CEO John Stumpf

As already noted, Stumpf was the top recipient of tax-deductible bonus pay between 2012 and 2015, with a total of $155 million. The Wells Fargo board began laying the foundation for these huge payouts shortly after the crash. In 2009, Stumpf received performance-based stock with a grant date value of $27.09 per share. By the time the stock vested on March 1, 2013, the firm's stock was trading at $35.39, but still below pre-crisis levels. The bank was also holding nearly 85,000 mortgage loans in foreclosure.[16] Nevertheless, the Wells Fargo board decided Stumpf had performed so superbly they awarded him even more shares than the maximum set in the original 2009 grant, boosting his total reward to $21.4 million.[17]

According to the Good Jobs First Violation Tracker, the bank had to fork over $10.4 billion in fines and fees between 2012 and 2015 for misconduct under Stumpf's watch, including more than $5.3 billion in 2012 as part of a multi-bank settlement with the federal government and state attorneys general over mortgage loan servicing and foreclosure abuses.[18] In April this year, Wells Fargo paid an additional $1.2 billion to settle Department of Justice claims of foreclosure fraud.[19]

Wells Fargo has also been the target of 42,483 complaints filed with the Consumer Financial Protection Bureau (CFPB) — the second-highest number of any bank.[20]

Performance for Whom?

Wells Fargo CEO John Stumpf pocketed $155 million in tax-deductible bonuses between 2012 and 2015, a period in which the firm paid $10.4 billion to settle financial misconduct cases.

American Express CEO Kenneth Chenault

In November 2008, credit card giant American Express converted to a bank holding company in order to qualify for $3.4 billion in federal bailout money. After paying back their bailout funds in 2009, CEO Chenault raked in more stock-based "performance" pay before his firm's stock regained pre-crisis levels than any other leading bank CEO. In the four years before Amex stock recovered in 2014, he hauled in a total of $68.8 million in exercised options and vested performance shares. During this same 2010-2013 period, the firm faced $198 million in financial penalties for various consumer financial protection violations.[21]

JPMorgan Chase CEO Jamie Dimon

Dimon cashed in $22.9 million in stock options in February and March 2010, at the peak of the foreclosure crisis. More than 158,000 homes were sold through foreclosure auctions in March of that year alone.[22] JPMorgan was one of five giant mortgage servicers that had to pay a combined $25 billion in 2012 to settle mortgage loan servicing and foreclosure abuse claims.[23] It was the largest civil suit settlement in history. The bank also paid $13 billion in 2013 to settle a suit for misleading investors about securities containing toxic mortgages in the lead-up to the housing crash. That was the largest settlement with a single entity in U.S. history.[24] Overall, the bank has

racked up more than $28 billion in mortgage and other financial misconduct settlement fees since 2010, the 2nd highest of any U.S. bank.[25] Dimon cashed in most of his options when the bank's shares were trading around 15 percent lower than at the beginning of the bear market in October 2007.[26] The firm's stock price didn't fully recover until 2013.

PNC Financial CEO James Rohr

In February 2009, while the country was reeling from the financial crisis, PNC Financial shoveled out 290,400 stock options to CEO Rohr. The exercise price of the options grant was $31.07 per share, down from $71.58 at the beginning of the bear market and a peak of $81.21 in September 2008.[27] By the time Rohr left his post in April 2013, the value of the bank's stock had increased, in part as a result of a $7.6 billion taxpayer bailout, but was still not at pre-crisis levels. Nevertheless, the outgoing CEO was able to pocket $22.4 million from the increased value of his options.[28] That same year the bank paid $222 million to settle various cases related to mortgage and foreclosure processing misconduct.[29] The bank at that time had more than 8,500 loans in foreclosure.[30] By shoveling out such huge options grants at a time when stock prices are at rock bottom, corporate boards effectively lower the performance bar.

Performance for Whom?

JPMorgan Chase CEO Jamie Dimon cashed in $22.9 million in stock options in February and March 2010, at the peak of the foreclosure crisis. The bank would eventually pay more than $28 billion to settle mortgage misconduct cases.

Goldman Sachs CEO Lloyd Blankfein

The value of Goldman Sachs stock has never regained the value it enjoyed in the heady days before the market slide, and so all of Blankfein's $28.9 million in deductible performance bonuses were cashed in before the bank's longtime shareholders were out of the red. The bank has also racked up more than $9 billion in fees and fines since 2010, including $5 billion earlier this year for falsely assuring investors that securities it sold were backed by sound mortgages, when bank executives knew they were full of mortgages that were likely to fail.[31]

Capital One Financial CEO Richard Fairbank

The Capital One board gave Fairbank a generous grant of performance shares on January 29, 2009, when the bank's stock was near rock-bottom, at $16.87 per share. At the time, the future value of the grant was estimated at $2 million.[32] By the time these shares vested and became tax-deductible for the bank in 2012, Capital One shares were trading at $45.75. That gave the CEO a payout of $6.8 million – despite the fact that the stock price was still one third below pre-crisis levels.[33] The following year, Fairbank made an even bigger haul, with $9.9 million in vested performance shares and $5.1 million in options – all before the bank's stock value had fully recovered.

Annual IPS executive pay reform scorecard

This annual Executive Pay Reform Scorecard provides the most comprehensive catalog of policy options for reining in CEO pay on Wall Street and beyond. It covers proposals that have been either introduced in the U.S. Congress or enacted into law in recent years, as well as other promising ideas from around the world.

The executive pay problem highlighted in this 23rd annual *Executive Excess* — the CEO bonus loophole —has an easy fix. The Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1127 and HR 2103) would simply eliminate the "performance pay" exemption and cap the deductibility of compensation at $1 million for every employee. Several additional bills would use revenue from the elimination of the bonus loophole to pay for urgent needs, such as Social Security expansion. But much more needs to be done to fix the Wall Street executive pay system that has done so much harm to society.

These two Wall Street-related reforms strike us as particularly urgent:

Rigorous implementation of Sec. 956 of Dodd-Frank

This provision of the 2010 financial reform law requires regulators to ban Wall Street bonuses that are excessive and encourage inappropriate risk-taking. This has not yet been implemented and regulators' current proposal does not go far enough to prevent the type of behavior that led to the 2008 crash. As we explained in greater detail in recent comments to the SEC, the proposed rule falls short in several areas, including overly lenient bonus deferrals, weak stock-based pay restrictions, and enforcement proposals that leave too much discretion to bank managers.

Closing the hedge and private equity loophole

Private equity and hedge fund managers are allowed to pay a 20 percent capital gains rate on the bulk of their income, rather than the 39.6 percent ordinary income rate. As a result, some of the wealthiest Wall Street financiers pay a lower tax rate than millions of our country's teachers, firefighters, and nurses. The Carried Interest Fairness Act of 2015 (HR 2889/S 1689) requires that the "carried interest" compensation received by private equity and hedge fund managers be taxed at ordinary income rates rather than the much lower capital gains rate. Tired of waiting for Washington to act, several states are considering proposals to close the loophole at the state level. A bill introduced in the New York State Assembly, for example, would generate an estimated $3.7 billion per year.

Principles for a Better CEO Pay System

We have based our pay reform rating system on five principles that advance economic fairness and stability in executive pay policy and practice.

1. Encourage narrower CEO-worker pay gaps.

Extreme pay gaps within companies run counter to basic principles of fairness and endanger enterprise effectiveness. Management guru Peter Drucker believed that the ratio of pay between worker and executive can run no higher than 20-to-1 without damaging company morale and productivity. Researchers have documented that enterprises operate more effectively when they tap into — and reward — the creative contributions of all employees.[34]

2. Eliminate taxpayer subsidies for excessive executive pay.

Ordinary taxpayers should not have to foot the bill for excessive executive compensation. And yet they do. Government contracts and subsidies routinely make mega millionaires out of corporate executives. Only chief executives benefit from the tax provision that lets corporations deduct unlimited amounts from their income taxes for the expense of executive pay.

3. Encourage reasonable compensation limits and counter short-termism.

The greater the annual reward an executive can receive, the greater the temptation to make reckless decisions that generate short-term earnings at the expense of long-term health for the corporation and the broader economy and planet. Government policies can encourage more reasonable compensation levels without micromanaging pay levels at individual firms.

4. Bolster accountability to shareholders.

On paper, the corporate boards that determine executive pay must answer to shareholders. Recent reforms have made some progress toward forcing corporate boards to justify to shareholders the compensation they award to executives.

5. Extend accountability to broader stakeholder groups.

Executive pay practices, as the 2008 financial crisis vividly demonstrates, impact far more people than shareholders. Effective reforms need to encourage management decisions that take into account the long-term health of the planet and the interests of all corporate stakeholders, including consumers, employees, and the communities where corporations operate.

The tables that follow grade each reform by assigning a rating for each of these five principles.

Progress Ratings
1 = Represents a small step toward achieving the principle 2 = Represents substantial progress 3 = Represents major progress 4 = Achieves the principle

Passed

Recently enacted through statute or regulation

Disclosure

		Progress Ratings					
		CEO-worker gap	**Taxpayer subsidies**	**Total pay limits**	**Shareholders**	**Stakeholders**	**Total**
CEO-worker pay ratio	The 2010 Dodd-Frank financial reform law (Sec. 953b) requires all U.S. corporations to report the ratio between their CEO and median employee pay. In the face of fierce corporate opposition, the SEC voted to adopt this regulation on August 5, 2015. Companies will be required to start disclosing pay ratios for their first fiscal year beginning on or after Jan. 1, 2017. Major U.S. firms will now have to reveal how much they value the contributions of all employees, not just top executives. Enterprises operate more effectively when they tap the creativity of all who labor within them. This provision could boost efforts (see **Pending**) to limit pay excess via tax and procurement policies that leverage the public purse.	**2**		**2**	**1**	**2**	**7**
Pay versus performance	The Dodd-Frank financial reform law (Sec. 953a) requires all U.S. corporations to disclose the relationship between executive pay and corporate financial performance, including changes in share prices over the previous year. The SEC issued a proposed rule in April 2015. The proposed rule uses “total shareholder return” as the key company performance measure. But many factors beyond executive control affect TSR. We need to broaden the definition of performance to advance long-term investor and stakeholder interests.				**1**		**1**
Employee and director hedging	Section 955 of Dodd-Frank requires firms to disclose whether they have a policy on hedging by employees or directors. The SEC finally issued a proposed rule in February 2015. Top executives use hedging contracts to bet against their own firm’s success. This means they win even if their company and community lose. But merely requiring disclosure may not end this practice.				**1**	**1**	**2**
Government contractor pay	The 2008 Government Funding Transparency Act requires contractors to annually disclose their five top-paid officers’ pay. The rule applies to companies that earn at least 80% of their revenue from federal contracts, grants, and loans and that have received $25 million in fed funding the previous year. This reform expands requirements that already apply to publicly held companies to privately held firms that rely heavily on federal contracts. This data could build support for procurement reforms that encourage more reasonable pay.		**2**	**1**		**1**	**4**

		Progress Ratings					
Passed Recently enacted through statute or regulation		**CEO-worker gap**	**Taxpayer subsidies**	**Total pay limits**	**Shareholders**	**Stakeholders**	**Total**
Governance							
Shareholder ‘Say on Pay’	The 2010 Dodd-Frank financial reform law (Sec. 951) requires firms to provide shareholders the right to a nonbinding vote on the compensation of executives. Dodd-Frank also requires an advisory vote regarding compensation arrangements (“golden parachutes”) triggered by a merger or acquisition. “Say on pay” has encouraged many companies to consult with shareholders before the vote and encouraged some companies to reform their executive pay practices. But “say on pay” has not lowered total executive pay in either the United States or in Europe, where “say on pay” mandates have been on the books for over a decade.	**1**		**1**	**2**		**4**
Proxy access	The Dodd-Frank financial reform law (Sec. 972) gives the SEC the authority to adopt rules allowing shareholders to place candidates on the ballots for board of director elections. A federal court in 2011 threw out SEC proxy access regulations on cost-benefit grounds. But in the years since, there has been a surge in shareholder proxy access proposals. In 2016, 201 such proposals were submitted, nearly twice the 108 proposals submitted in 2015. Approximately 37 percent of the S&P 500 now have some form of proxy access bylaw, up from only five prior to 2015. With proxy access, institutional investors have a greater capacity to challenge incumbents and incumbents may become more attentive to broader perspectives on executive compensation. Behind the recent upsurge in proxy access shareholder resolutions: a desire to ensure representation of climate science experts on corporate boards.	**1**		**1**	**4**		**6**
Compensation committee and consultant independence	Sec. 952 of Dodd-Frank requires securities exchanges to set listing standards related to the independence of board compensation committees and their advisers. The SEC adopted rules to implement Section 952 in June 2012.[35] Unfortunately, the SEC’s ruling will have limited impact. The SEC ignored recommendations to bar stock exchanges from listing companies that do not have compensation committees and failed to give guidance to the exchanges on defining "independence."[36] Legal analyst J. Robert Brown Jr. argues that the rule may actually provide an incentive for companies to avoid creating compensation panels, a move that could give CEOs a greater say in the hiring of pay consultants.			**1**	**2**		**3**

		Progress Ratings					
Passed Recently enacted through statute or regulation		CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Tax Policy							
Capping the deductibility of executive pay in the health insurance industry	Since 1993, all U.S. companies have been subject to a $1 million cap on the tax deductibility of executive pay, but this cap comes with a giant loophole that exempts "performance-based" pay. The Affordable Care Act eliminated this loophole for the health insurance industry and lowered the cap to $500,000, starting in 2013.[37] This reduces taxpayer subsidies for excessive executive pay and provides an incentive for lowering overall CEO compensation. This provision could encourage the adoption of proposals noted below to cap the tax deductibility of executive pay at all U.S. firms.	1	3	1			5
Making firms pay for the social dislocations excessively paid execs help cause	In San Francisco, housing advocates have proposed a 1.5 percent tax on the lush payrolls of the city's high-tech sector to fund affordable housing and services for the city's large homeless population. The high-executive pay firms affected would include Google, Twitter, Uber, Airbnb, and Salesforce.	1	5	2		5	13
Other							
Pay restrictions on executives of large financial institutions	The Dodd-Frank financial reform law (Sec. 956) prohibits large financial institutions from granting incentive-based compensation that "encourages inappropriate risks." After issuing a quite weak initial proposal in 2011, regulators issued a new proposal in 2016. As we explained in greater detail in recent comments to the SEC, the proposed rule is weak in several areas, including bonus deferral periods that are too lenient, only very limited restrictions on stock-based pay, and allowing management too much discretion over enforcement. And so it is too early to judge how effective this regulation will be.						?

		Progress ratings					
Passed Recently enacted through statute or regulation		CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Clawbacks	The Dodd-Frank law (Sec. 954) requires executives to repay compensation gained as a result of erroneous data in financial statements. Executives must repay “excess” incentive compensation received during the three-year period preceding an accounting restatement. The SEC finally issued a proposed rule in July 2015, but no further action has been taken. This takes an important step toward ensuring executives do not get to keep pay based on unachieved performance goals. Previous clawback provisions in the Sarbanes-Oxley law only apply to restatements resulting from misconduct. But the new rule applies only to top execs, leaving high-bonus traders off the hook. And the clawback period — three years — falls far short of new UK rules that subject top managers to clawbacks for up to 10 years.			**1**	**2**	**1**	**4**
Federal Re-serve guid-ance on incentive compen-sation	In 2010, the Fed released guidelines on financial firm incentive pay. Unlike the European Union (see below), the Fed does not require firms to impose standard formulas for bonus payouts or set compliance deadlines. Instead, the Fed’s general principles encourage longer-term performance and the avoidance of undue risks for the firm or financial system. Given the vagueness of the guidelines and the confidentiality of the Federal Reserve’s reviews of company compliance, evaluating the impact of this guidance on actual pay practices has been next to impossible.						**0**
Limiting the executive compen-sation that contractors can bill the federal government	The Office of Management and Budget establishes a maximum benchmark for contractor compensation. A budget deal approved in December 2013 lowered the cap from $952,000 to $487,000 per executive. This reform represents a positive step towards reducing taxpayer subsidies for executive pay, but only limits the executive pay a company can directly bill the government for reimbursement. It does not curb the windfalls that government contracts routinely generate for top executives.	**1**	**3**	**1**		**1**	**6**

Proposed

Introduced in the U.S. Congress

		Progress ratings					
		CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Ending the preferential capital gains treatment of carried interest	Hedge and private equity fund managers pay taxes at a 20 percent capital gains rate on the profit share — "carried interest" — they get paid to manage investment funds, rather than the 39.6 percent rate they would pay under normal tax schedules. The Carried Interest Fairness Act of 2015 (HR 2889/S 1689) requires that the "carried interest" compensation received by private equity and hedge fund managers be taxed at ordinary income rates rather than the much lower capital gains rate. A similar bill passed the House in 2007 but died in the Senate. A 2015 analysis in the *New York Times* suggests that taxing carried interest at ordinary tax rates would raise $180 billion over 10 years.	1	4	3			8
Limiting the deductibility of executive compensa-tion	In 1993 Congress set a $1 million cap on the tax deductibility of executive pay, but with an exception for "performance-based" pay, including stock options and other "incentive" pay. The Stop Subsidizing Multimillion Dollar Corporate Bonuses Act (S. 1127 and HR 2103) would eliminate the "performance pay" exemption and cap the deductibility of compensation at $1 million for every employee. The Income Equity Act (H.R. 1305) would deny employers a tax deduction for any excessive pay that runs greater than 25 times the median compensation paid to full-time employees or $500,000. Several additional bills would use revenue from the elimination this loophole to pay for urgent needs. The Joint Committee on Taxation estimates that simply eliminating this loophole would generate $50 billion in revenue over 10 years.	2	4	2		1	9
Ending the stock option accounting double standard	Accounting rules allow companies to lower their tax bill by claiming deductions for stock options that are much higher than the option value they report in their financial statements. This encourages corporate boards to hand executives huge stock option windfalls. In the last session, Senators Carl Levin (D-Mich.) and Sherrod Brown (D-Ohio) included a provision in the Cut Unjustified Tax Loopholes Act (S. 268) that would require the corporate tax deduction for stock option compensation to be not greater than the stock option book expense shown on a corporation's financial statement. The Joint Committee on Taxation has estimated that ending this tax break would raise $24.6 billion over 10 years.	1	3	1			5

Proposed Introduced in the U.S. Congress		Progress ratings CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Limiting deferred compensa-tion	Most CEOs at large companies now legally shield unlimited amounts of compensation from taxes through special deferred accounts set up by their employers. By contrast, ordinary taxpayers face strict limits on how much income they can defer from taxes via 401(k) plans. These special deferred compensation plans but put? a burden on other U.S. taxpayers widen the divide between executives and ordinary workers, whose pension benefits have declined significantly at most firms.[38] . In 2007, the Senate passed a minimum wage bill that would have limited annual executive pay deferrals to $1 million, but the provision was dropped in conference committee.	2	1	1			4
Leveraging government procurement dollars to discourage excessive executive compensa-tion	A Rhode Island state Senate bill would give companies with narrow CEO-worker pay gaps an edge in competing for state contracts. Rep. Jan Schakowsky's Patriot Employer Tax Credit Act (H.R. 2619) would extend tax breaks and federal contracting preferences to companies that meet good behavior benchmarks, including CEO-worker pay ratios of 100-1 or less. By law, the U.S. government denies contracts to companies that discriminate, in their employment practices, on race or gender. This public policy clearly states that our tax dollars should not subsidize racial or gender inequality. In a similar way, this reform would tap the power of the public purse to discourage extreme economic inequality.	2	3	2		3	10
Fannie Mae and Freddie Mac executive pay caps	In 2015, the House Financial Services Committee voted nearly unanimously in favor of a bill (H.R. 2243) to cap the paychecks of Fannie and Freddie CEOs to no more than $600,000, but there has been no further action. These quasi-private institutions were founded by the federal government to make housing affordable for lower-income families.	4	2	6		3	15
Progressive taxation	Executive pay can be affected indirectly through reforms that tax income in top brackets at high rates. A number of proposals before Congress are designed to ensure the ultra rich pay their fair share. As we saw during the quarter century after World War II, steeply graduated progressive taxation can serve as a significant disincentive for excessive executive compensation.	2	4	1			7

Promising

Not yet before the U.S. Congress

		Progress ratings					
		CEO-worker gap	**Taxpayer subsidies**	**Total pay limits**	**Shareholders**	**Stakeholders**	**Total**
Ban stock buybacks	Since 1982, SEC Rule 10b-18 has allowed corporations to repurchase their shares on the open market, with certain limitations. This rule should be rescinded and manipulative stock buybacks should be banned. As Professor William Lazonick and others have pointed out, stock buybacks artificially inflate executive pay and drain capital that could be put to productive purpose. Buybacks have become a pervasive form of legal stock market manipulation.	**4**		**3**	**4**	**4**	**15**
Banker bonus limits	EU rules introduced in 2014 limit banker bonuses to no more than annual salary, or up to 200 percent of annual salary with shareholder approval. The cap applies to bankers in non-EU banks located in the EU, as well as senior staff (including Americans) working for EU-based banks anywhere in the world. This reform aims to help counter the “bonus culture” that encourages high-risk investing. Regulators are working to crack down on some banks that have been circumventing the new rules by raising base salaries and converting bonuses into “allowances.”	**3**		**3**	**2**	**2**	**10**
Signing and merger bonus ban	In 2013, Swiss voters adopted a national ballot initiative that, among other provisions, prohibits executive sign-on and merger bonuses. “Golden hellos” and merger bonuses give executives a powerful incentive to wheel and deal instead of working to build enterprises fit for long-term success.	**3**		**3**	**2**	**2**	**10**
‘Skin in the game’ mandate	Investment adviser Vincent Panvini has proposed that executives be required to place a share of their own financial assets in escrow for five or ten years. If a CEO’s company lost value over that time, the CEO would forfeit money from that escrow. Small-scale entrepreneurs seldom behave recklessly because they have their own personal wealth tied up in their business. This proposal aims to give corporate executives a similar incentive for responsible behavior.				**3**	**3**	**6**
Strict caps on executive compensa-tion for bailout firms — before the next crisis	In 2009, the Senate approved an amendment that would have capped pay at bailout companies at $400,000, the salary of the U.S. President. The EU enacted similar rules in 2014. Bailed out banks now have to cap their executive pay at no more than 15 times the national average salary or 10 times the wage of the average worker at the bank. New UK rules ban bonuses for executives of banks receiving bailouts. Given a clear warning about the consequences for their own paychecks, executives might think twice about taking actions that endanger their own future — and ours.	**3**	**3**	**3**	**3**	**3**	**15**

Promising

Not yet before the U.S. Congress

Progress ratings

Reform	Description	CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
A CEO pay limit for firms in bankruptcy	The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Sec. 331) prohibits companies in bankruptcy from giving executives any “retention” bonus or severance pay that runs over ten times the average bonus or severance awarded to regular employees in the previous year. This legislation could be strengthened by closing a loophole that exempts “performance-based pay.” This reform would help prevent CEOs from pocketing millions in severance after declaring bankruptcy and eliminating jobs and pensions.	**2**			**2**	**1**	**5**
CEO pay limits at public-funded institutions	A 2013 New York State executive order prohibits service providers that annually average over $500,000 in state support and receive at least 30 percent of their annual in-state revenue from state funds from using more than $199,000 in state funds to pay individual executive compensation. The prohibition has survived court challenges. Unions pushed ballot initiatives in both Massachusetts and California in 2014 aimed at limiting CEO pay at hospitals that receive taxpayer subsidies. In both cases, the unions withdrew the initiatives after popular support helped them win other concessions. A similar effort began this year in Arizona. In Connecticut, a state lawmaker has introduced a bill that would require nonprofit hospitals that pay their executives more than $500,000 to pay property taxes. Moves like these all help redefine what society considers responsible CEO pay.	**3**	**4**	**4**		**2**	**13**
Overall CEO pay limit	A massive corporate ad blitz was needed to block Swiss voters from passing a popular initiative to limit executive compensation to no more than 12 times worker pay in 2013. Egypt in July 2014 limited paychecks for top public sector executives to 35 times the nation’s minimum wage, about $157 a month. But lawsuits and a failure of political will have bogged down the cap’s implementation. Publicly owned companies in Egypt employ about 835,000 employees, with another 5.8 million Egyptians working in public administration.	**4**		**4**	**3**	**3**	**14**
Corporate board diversity	At least a dozen EU countries require firms above a certain size to include worker representatives on their boards, and the UK may be next. In one of her first policy pronouncements, the newly installed Conservative Party prime minister Theresa May indicated her support for worker board representation. Just as investment portfolio diversity decreases risk and improves overall performance, corporate board diversity could have the same impact. European CEO pay has consistently run at much lower levels than U.S. executive pay.					**3**	**3**

Promising Not yet before the U.S. Congress		Progress ratings					
		CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
‘Say on Pay’ with teeth	The UK now requires public companies to give shareholders a binding vote on compensation every three years. The EU’s internal markets commissioner proposed that shareholders also have the power to vote on the ratio between the lowest and highest-paid employees in the company. In 2011, Australia gave shareholders the power to remove directors if a company's executive pay report gets a “no” vote from 25 percent of shareholders or more at two consecutive annual meetings. Dean Baker of the Center for Economic and Policy Research has proposed that corporate directors have their compensation denied if a CEO pay package they have approve fails to gain a majority in a “say on pay” vote. These policies are much stronger than the current advisory “Say on Pay” rules in the United States. Four U.S. companies whose shareholders rejected a pay plan in 2011 received a second no vote in 2012, and yet the firms still have no legal obligation to alter the pay packages.	2		2	5		9
Pay ratio limit	French President François Hollande has capped executive pay at firms where the government owns a majority stake at 450,000 euros, or essentially 20 times the minimum wage. Management consultant Douglas Smith has called for a similar pay ratio limit on U.S. firms receiving taxpayer funds. Amalgamated Transit Union president Lawrence Hanley has proposed a "maximum wage law" that would limit executive pay to a "specific multiple" of the wage earned by their lowest-paid employees. In February 2015, UK MP Iain McKenzie called on his government to cap the top level of pay at 100 times the average enterprise wage. Corporate salary differentials near 10 and 20:1 have been commonplace in Japan and some European nations for many years. A government could step toward mandating such a limit by denying government contracts, tax breaks, or subsidies to any corporations that compensate executives above a set ratio of worker pay.	4	4	4		1	13
Corporate tax penalty on excessive executive pay	France put in place in 2013 a special corporate tax equal to 75 percent of any individual executive compensation over 1 million euros. The tax, “barely a shadow” of the original “super tax” proclaimed by President Hollande when he came to power in 2012, expired earlier this year. Last year the California Senate came close to passing a law that would tie the corporate tax rate to a firm’s CEO-worker pay gap — the wider the gap, the higher its rate. A majority of senators voted in favor of the bill, but a two-thirds majority was required for passage. Incorporating CEO pay in tax policy is a responsible way to ensure taxpayers are not subsidizing excessive executive compensation.	4	4	4	3	3	18

Promising

Not yet before the U.S. Congress

		Progress ratings					
		CEO-worker gap	Taxpayer subsidies	Total pay limits	Shareholders	Stakeholders	Total
Abolish executive performance pay	Michael Dorff of the Southwestern Law School, author of the 2014 book *Indispensable and Other Myths: The True Story of CEO Pay,* is proposing the abolition of “performance pay.” Others have suggested executives should have to wait to cash in such forms of compensation for at least 10 years, even if they are fired or retire. At best, stock options and other performance-pay incentives have CEOs thinking more about their own personal rewards than long-term enterprise sustainability. At their worst, “pay for performance” deals encourage criminal behavior.	**4**		**4**	**3**	**3**	**14**
Allow tax deductions for incentive pay only if they share incentive rewards broadly within the enterprise	Richard Freeman and Douglas Kruse of Harvard University and Joseph Blasi of Rutgers University propose that Congress only allow tax deductions for executive incentives when corporations award as much incentive pay “to the bottom 80 percent of their workforce as they do to the top 5 percent.” Tax deductions for stock option deductions have now reached rather staggering levels. Using figures from Standard & Poor’s ExecuComp database, Freeman, Kruse, and Blasi compute that these deductions averaged over $50 billion a year from 2001 to 2007. This proposal would give major corporations a significant financial incentive to end top-heavy reward distributions.	**2**	**3**	**2**			**7**

Appendix 1: Top 20 U.S. banks, 2015 bonus subsidies

(Notes: All figures in $thousands. CEOs in bold/italic. Full 2012-2015 spreadsheet available on request: sarah@ips-dc.org)

Executive	Forms of pay that qualify for unlimited tax deductibility under bonus loophole			Compensation above $1 million cap that qualifies for bonus deduction	Value of bank's bonus subsidy
	Cash incentive pay	Value realized from option exercise	Vested performance stock		
AMERICAN EXPRESS					
Kenneth I. Chenault	0	16,862	10,593	27,455	9,609
Douglas Buckminster	524	1,039	1,669	3,232	1,131
Edward P. Gilligan	4,390	0	4,558	8,948	3,132
Jeffrey C. Campbell	873	0	0	873	306
Laureen E. Seeger	640	0	0	640	224
Stephen J. Squeri	771	20,351	3,210	24,332	8,516
BANK OF AMERICA					
Brian T. Moynihan	0	0	3,369	3,369	1,179
Bruce R. Thompson	3,960	0	4,367	8,327	2,914
David C. Darnell	3,200	0	3,420	6,620	2,317
Geoffrey S. Greener	3,360	0	0	3,360	1,176
Terrence P. Laughlin	3,460	0	2,219	5,679	1,988
Thomas K. Montag	5,800	0	5,807	11,607	4,062
Paul M. Donofrio	0	0	0	0	0
BANK OF NEW YORK MELLON					
Gerald L. Hassell	2,419	7,849	2,764	13,033	4,561
Brian T. Shea	2,460	0	578	2,728	955
Curtis Y. Arledge	3,364	0	3,075	6,211	2,174
Karen B. Peetz	1,648	2,873	1,232	5,445	1,906
Thomas P. Gibbons	2,427	617	1,232	4,002	1,401
BB&T					
Kelly S. King	4,097	0	947	5,044	1,765
Christopher L. Henson	1,741	618	394	2,581	903
Clarke R. Starnes, III	1,308	519	299	1,819	637
Daryl N. Bible	1,308	635	299	1,934	677
Ricky K. Brown	1,741	592	394	2,554	894

Executive	Forms of pay that qualify for unlimited tax deductibility under bonus loophole			Compensation above $1 million cap that qualifies for bonus deduction	Value of bank's bonus subsidy
	Cash incentive pay	Value realized from option exercise	Vested performance stock		
CAPITAL ONE FINANCIAL					
Richard D. Fairbank	***0***	***0***	***30,737***	***30,737***	***10,758***
John G. Finneran, Jr.	0	5,948	2,731	8,679	3,038
Ryan M. Schneider	0	4,121	2,803	6,924	2,424
Sanjiv Yajnik	0	0	2,465	2,465	863
Stephen S. Crawford	0	0	0	0	0
CITIGROUP					
Michael L. Corbat	***586***	***0***	***0***	***586***	***205***
Don Callahan	586	0	0	586	205
James A. Forese	2,083	0	0	2,083	729
Stephen Bird, MBA	975	0	0	975	341
John C. Gerspach	430	0	0	430	151
DISCOVER FINANCIAL					
David W. Nelms	***1,488***	***0***	***21,795***	***23,283***	***8,149***
Carlos M. Minetti	710	0	5,151	5,529	1,935
Diane E. Offereins	788	0	5,151	5,607	1,962
R. Mark Graf	656	0	4,755	5,054	1,769
Roger C. Hochschild	956	0	11,096	11,821	4,137
FIFTH THIRD BANCORP					
Kevin T. Kabat	***1,545***	***0***	***0***	***1,545***	***541***
Daniel T. Poston	0	0	0	0	0
Frank R. Forrest	750	0	0	388	136
Greg D. Carmichael	1,336	0	0	1,336	468
Lars C. Anderson	0	0	0	0	0
Tayfun Tuzun	800	0	0	348	122
Timothy N. Spence	217	0	0	64	22
GOLDMAN SACHS					
Lloyd C. Blankfein	***6,300***	***16,999***	***0***	***23,299***	***8,155***
Gary D. Cohn	5,745	18,569	0	24,314	8,510
Mark S. Schwartz	4,845	0	0	4,845	1,696
Michael S. Sherwood	0	13,452	0	13,452	4,708
Harvey M. Schwartz	5,745	26,908	0	32,653	11,428

Executive	Forms of pay that qualify for unlimited tax deductibility under bonus loophole			Compensation above $1 million cap that qualifies for bonus deduction	Value of bank's bonus subsidy
	Cash incentive pay	Value realized from option exercise	Vested performance stock		
JPMORGAN CHASE					
James Dimon	***0***	***10,860***	***0***	***10,860***	***3,801***
Daniel E. Pinto	0	1,745	0	1,745	611
Mary Callahan Erdoes	0	8,333	0	8,333	2,917
Matthew E. Zames	0	1,013	0	1,013	355
Marianne Lake	0	0	0	0	0
KEYCORP					
Beth E. Mooney	***1,900***	***0***	***3,888***	***5,788***	***2,026***
Christopher M. Gorman	1,800	0	2,031	3,489	1,221
Dennis A. Devine	575	0	0	181	64
Donald R. Kimble, Jr.	760	0	0	436	152
Edward J. Burke	1,000	0	513	1,105	387
M & T BANK					
Robert G. Wilmers	***0***	***0***	***567***	***567***	***198***
Kevin J. Pearson	0	288	397	685	240
Mark J. Czarnecki	0	0	567	567	198
Ren F. Jones	0	0	397	397	139
Richard S. Gold	0	223	271	494	173
MORGAN STANLEY					
James P. Gorman	***0***	***0***	***7,083***	***7,083***	***2,479***
Gregory J. Fleming	0	0	5,666	5,666	1,983
James A. Rosenthal	0	0	5,194	5,194	1,818
Ruth M. Porat	0	0	5,194	4,581	1,603
Thomas Columba Kelleher	0	0	5,666	5,666	1,983
Jonathan M. Pruzan	0	0	0	0	0
NORTHERN TRUST					
Frederick H. Waddell	***2,800***	***817***	***0***	***3,617***	***1,266***
Jana Raye Schreuder	1,000	189	0	1,189	416
Stephen Biff Bowman	850	28	0	436	153
Steven L. Fradkin	1,000	193	0	1,193	418
William Lind Morrison	1,400	3,250	0	4,650	1,627

Executive	Forms of pay that qualify for unlimited tax deductibility under bonus loophole			Compensation above $1 million cap that qualifies for bonus deduction	Value of bank's bonus subsidy
	Cash incentive pay	Value realized from option exercise	Vested performance stock		
PNC FINANCIAL					
William S. Demchak	***4,100***	***6,176***	***7,268***	***17,544***	***6,141***
E. William Parsley, III	1,300	0	10,681	11,504	4,026
Joseph C. Guyaux	1,130	4,397	2,423	7,608	2,663
Michael P. Lyons	2,020	0	4,249	5,976	2,092
Robert Q. Reilly	1,400	0	1,650	2,594	908
REGIONS FINANCIAL					
O. B. Grayson Hall, Jr.	***2,507***	***0***	***5,259***	***7,766***	***2,718***
C. Matthew Lusco	687	0	917	1,247	436
David J. Turner, Jr.	883	0	691	1,310	459
Fournier J. Gale, III	692	0	917	1,280	448
John B. Owen	905	0	1,223	1,881	658
STATE STREET					
Joseph L. Hooley	***0***	***1,501***	***1,776***	***3,277***	***1,147***
James S. Phalen	1,042	844	799	2,678	937
Jeffrey N. Carp, J.D.	1,047	1,404	622	3,073	1,075
Michael F. Rogers	510	0	799	1,309	458
Michael William Bell	623	0	888	1,376	482
SUNTRUST BANKS					
William Henry Rogers	***2,054***	***0***	***5,092***	***7,146***	***2,501***
Aleem Gillani	794	449	1,619	2,559	896
Anil T. Cheriyan	599	0	870	1,009	353
Mark A. Chancy	863	294	2,069	2,923	1,023
Thomas E. Freeman	718	894	1,634	2,913	1,020
U S BANCORP					
Richard K. Davis	***2,305***	***8,271***	***3,306***	***13,882***	***4,859***
Andrew J. Cecere	920	3,632	1,889	6,219	2,177
Jeffry H. Von Gillern	587	1,235	0	1,393	488
Kathleen Ashcraft Rogers	486	0	0	0	0
P. W. Parker	678	1,150	472	1,949	682
Richard B. Payne, Jr.	561	3,227	378	3,726	1,304

Executive	Forms of pay that qualify for unlimited tax deductibility under bonus loophole			Compensation above $1 million cap that qualifies for bonus deduction	Value of bank's bonus subsidy
	Cash incentive pay	Value realized from option exercise	Vested performance stock		
WELLS FARGO					
John G. Stumpf	***4,000***	***0***	***36,001***	***40,001***	***14,000***
Avid Modjtabai	850	0	15,840	16,690	5,842
Carrie L. Tolstedt	850	18,776	15,840	35,466	12,413
David M. Carroll	850	0	15,840	16,690	5,842
Timothy J. Sloan	1,000	5,094	15,840	21,934	7,677
John Shrewsberry	850	1,835	6,000	8,685	3,040
2015 total	**136,928**	**224,069**	**337,398**	**685,340**	**239,869**
2015 average	**1,268**	**2,075**	**3,124**	**6,346**	**2,221**

Appendix 2: Sources and methodology

1. 20 largest U.S. publicly held banks

Based on asset size, compiled by Banks around the World.

2. Compensation that qualifies for bonus deduction

Internal Revenue Code Section 162(m) imposes a $1 million deduction limit for compensation to a company's CEO and its three other highest-paid executive officers (excluding the CFO), unless the compensation is "performance-based" and provided under a plan that has been approved by the shareholders. How 162(m) treats specific compensation package components:

Bonus: Compensation labeled "bonus" in proxy statement summary tables is generally not considered performance-based because it is typically a discretionary payment rather than an incentive award under a shareholder-approved plan. However, among the 20 banks, Bank of America and Goldman Sachs indicated in their proxies that they have configured this cash bonus to be 162(m)-compliant.

Non-equity incentive plan compensation: Similar to a bonus, but paid under a written plan and thus considered "performance-based."

Stock options: Considered "performance-based." We included the value of options exercised, rather than the estimated value of a stock options grant, since options are not taxable until exercised.

Stock grants: Considered "performance-based" under 162(m) only when tied to specific performance benchmarks. Time-based restricted stock units do not qualify. Like stock options, stock grants are not taxable in the year they are granted, but rather when they vest. When the proxy statement did not clarify whether stock vested that year had been structured to qualify for a deduction under 162(m), we looked at proxy information in the years in which the stock was granted and also Form 4 "insider trading" reports on executive acquisitions and sales of stock to determine whether they were performance-based. If it was still unclear, we did not include these amounts in our calculations.

Salary, perks, pensions, and nonqualified deferred compensation are not considered "performance-based" under 162(m).

3. Value of corporation's executive bonus subsidy

Corporations can deduct up to $1 million of each executive's compensation whether it is "performance-based" or not. Thus, when executives earned less than $1 million in non-performance-based pay, we deducted the difference from the "performance pay" total. To compute the tax break on qualifying "performance pay," we applied the federal corporate tax rate of 35 percent.

As with most tax matters, there is some gray area when it comes to deductions for executive compensation. Some companies note in their proxy statements that the IRS may challenge some of a firm's claimed deductions. Unfortunately, due to lack of transparency in corporate taxation, such challenges are not public information.

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