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Meridian Client Update

House Committee Hearing on Corporate Accountability Bills

On May 15, 2019, the U.S. House of Representatives Committee on Financial Services held a hearing to consider four draft bills that, if enacted, would impose new compensation and human capital disclosure requirements on public companies and additional regulatory oversight of corporate stock buyback programs.

The Financial Services Committee (FSC) majority staff has developed three legislative proposals that would require public companies to make sweeping disclosures on officer and employee compensation, human capital metrics, and domestic and foreign employees. A fourth legislative proposal is a potential precursor to the SEC adopting rules that would impose certain limitations on share buyback programs and would require public companies to make extensive disclosures regarding such programs. The four draft bills are at the very early stages of the legislative process.

The following is a summary of each of the four draft bills.

- **Greater Accountability in Pay Act.** This draft bill would amend federal securities laws to require a public company (other than an emerging growth company) to disclose in its annual report certain information about executive officer and employee compensation. Required disclosures would include information on the relationship between annual changes in executive officers' median compensation and median compensation of all employees (exclusive of executive officers). The Act would also require a comparison of the annual percentage change in the consumer price index to the annual percentage changes in executive officers' median compensation and all employees' median compensation.
- **Bill on Human Capital Management Disclosures.** This draft bill would require the SEC to issue rules that would require a public company to disclose in its annual report extensive information about its human capital management policies, practices and performance. Mandated disclosures would cover workforce demographics, workforce stability (including voluntary and involuntary turnover rates and internal hiring and promotion rates), diversity, skills and capabilities, culture and empowerment, health and safety, productivity, compensation and incentives, and human rights commitments.
- **Outsourcing Accountability Act.** This draft bill would amend federal securities laws to require a public company (other than an emerging growth company) to disclose in its annual report the total number of employees working and domiciled in the United States, including the total number in each state, and the total number of employees working and domiciled in any other country. Companies would also be required to disclose the percentage increase or decrease in the total number of employees in each country from the previous reporting year.
- **Bill Requiring SEC to Study Stock Buyback Programs.** This draft bill would require the SEC to study whether public companies have misused stock buyback programs to enhance executive compensation at

the expense of increasing worker wages, research and development investments, and capital improvements. In addition, the draft bill would require the SEC to consider whether rules should be adopted that would (i) impose certain limits on a company's ability to announce and implement stock repurchase programs, (ii) require disclosure of the size and duration of a stock repurchase program and of each transaction conducted under such repurchase program, and (iii) preclude officers or directors from selling company stock or exercising stock options during a specified period following the announcement of a stock repurchase program.

Within one year of the enactment of the bill, the SEC would be required to issue its study. If the study called for new regulations, the SEC would be required to issue new regulations within one year of the study's issuance.

Meridian Comment

The FSC has not set a timetable for moving the draft bills forward and, in fact, may take no further action. If the FSC votes to send the bills to the full House, the Democratic majority certainly could support their passage. However, the legislative proposals are likely to remain aspirational in nature since the Republican leadership in the Senate would seem unlikely to hold a vote on the bills without strong bipartisan support.

Nevertheless, the draft bills provide important insights into potential policy positions of the Democratic Party, which could translate into enacted legislation if the Democrats retake the White House and the Senate in 2020, while holding on to their majority in the House.

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The **Client Update** is prepared by Meridian Compensation Partners' Technical Team led by Donald Kalfen. Questions regarding this Client Update or executive compensation technical issues may be directed to Donald Kalfen at 847-235-3605 or dkalfen@meridiancp.com.

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