

Is There a Case for Regulating Executive Compensation in the Financial Services Industry? John Core and Wayne Guay

Since at least as early as the 1950s, the press, general public, politicians, and academic researchers have remarked on the high levels of US CEO pay and questioned whether these levels are fair and appropriate, as well as whether executive compensation provides proper incentives. Undoubtedly, executive compensation and incentives will continue to be a hotly debated issue for years to come and we do not contend to settle these disputes in this article. Rather, we begin by highlighting some basic descriptive analysis of CEO pay levels and incentives, in general, as well as a comparative analysis of CEO pay and incentives in the financial services industry. We then describe recent proposals to regulate executive pay in the financial services industry (and more generally), and discuss the merits of such regulation. In summary, although we agree broadly with regulators' views on the principles that should guide executive compensation practices, we believe that many of these principles are already engrained in the typical executive compensation plan. We also have serious reservations about whether several of the regulatory proposals would achieve their stated objectives.