U.S. DEPARTMENT OF THE TREASURY

**Press Center**

# Treasury Announces Executive Compensation Rules Under the Emergency Economic Stabilization Act

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**Washington -** The U.S. Treasury Department today announced the development of three programs under the Emergency Economic Stabilization Act and corresponding executive compensation and corporate governance standards. These standards generally apply to the chief executive officer, chief financial officer, plus the next three most highly compensated executive officers. Any firm participating in the following three programs will be required to adopt these standards.

**Troubled Asset Auction Program- Treasury continues to develop a program to purchase troubled mortgage-related assets through an auction format, and will be issuing program guidance for this program in the coming weeks. Treasury is issuing guidance for the executive compensation requirements that will apply to firms participating in this program. As prescribed by the Act, any financial institution that sells more than $300 million of troubled assets to the Treasury via an auction would be prohibited from entering into new executive employment contracts that include golden parachutes for the term of the program. Treasury is releasing Treasury Notice 2008-TAAP regarding this restriction. Furthermore, under the Act, (1) the financial institution may not deduct for tax purposes executive compensation in excess of $500,000 for each senior executive, (2) the financial institution may not deduct certain golden parachute payments to its senior executives and (3) a 20-percent excise tax will be imposed on the senior executive for these golden parachute payments. Treasury is releasing I.R.S. Notice 2008-94 regarding these new tax rules.**

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**Capital Purchase Program- The Treasury is issuing guidance for this program designed to provide equity capital under standardized terms directly to certain financial institutions, further strengthening their capital structures to facilitate their continued lending in the capital markets. Any financial institution participating in the Capital Purchase Program will be subject to more stringent executive compensation rules for the period during which Treasury holds equity issued under this program. The financial institution must meet certain standards, including: (1) ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution; (2) required clawback of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; (3) prohibition on the financial institution from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision; and (4) agreement not to deduct for tax purposes executive compensation in excess of $500,000 for each senior executive. Treasury is issuing interim final rules for these executive compensation standards.**

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**Programs for Systemically Significant Failing Institutions- The Treasury Department is currently developing a third program to potentially provide direct assistance to certain failing firms on terms negotiated on a case-by-case basis. Treasury is issuing guidance for the executive compensation standards that will apply to the firms participating in such programs and their senior executives (Treasury Notice 2008-PSSFI). These standards are similar in all respects to the Capital Purchase Programs executive compensation standards described above, with one significant difference. In situations where Treasury provides assistance under the systemically significant failing institutions programs, golden parachutes will be defined more strictly to prohibit any payments to departing senior executives.**

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