U.S. Bankers Are Fed Up With British Regulations

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LONDON — A tough new requirement by Britain's securities regulator that top banking executives and earners must defer 60 percent of their total compensation for a three-year period is pushing some American banks with extensive London operations to say that they just won't take it anymore.

Their taxes are on the rise, they have become political piñatas and now, just as one of the richer bonus seasons in recent years gets under way, they are being told by regulators how to pay — or not to pay, to be precise — their employees.

About a month ago, the Financial Services Authority, which last year became the first regulator in the world to announce specific plans to rein in compensation, told the 26 banks it regulates that any executive, trader or banker who was to receive a bonus of £1 million or more would be able to make immediate use of only 40 percent of that reward.

The rest would be deferred for three years, with further restrictions limiting when and how much bankers can cash in.

On the surface, the guidelines are not altogether inconsistent with a growing trend in banking to extend the vesting periods for stock awards in an attempt to dissuade employees from making dangerous bets with the company's capital for short-term profit.

But, coming as it does after a wildly unpopular move by the British government to impose a 50 percent tax on banker bonuses, this new intervention is being considered by some as a final straw of sorts.

As a result, a number of foreign banks operating here — JPMorgan Chase and Goldman Sachs in particular — have begun to reassess their once cast-iron commitments to using London as a major financial hub and operations center.

"It is very dangerous to lead the pack in regulation like this," said Stuart Fraser, the policy chairman of the City of London, as the hub is known. "You can only push people so far."

Late last year, the JPMorgan chief executive, Jamie Dimon, called Britain's chancellor of the Exchequer, Alistair Darling, to voice his displeasure over the tax — the only head of an American bank to make such a call, people at the British Treasury said.

During the conversation, Mr. Dimon said that JPMorgan, which employs 15,000 people in Britain, was not just a significant taxpayer but was also making a $2.4 billion investment in Canary Wharf and that it had not taken a penny of government aid.

The conversation was first reported by The Daily Telegraph and received considerable attention in London, with some arguing that it was an early indicator that increasing regulation was going to induce banks to take their business elsewhere — to Geneva, New York, Frankfurt or Singapore.

But the situation is far more complicated than that.

A person who was briefed on the conversation said that while it was true that JPMorgan, as with most banks, was furious over the tax, the conversation between Mr. Dimon and Mr. Darling was civil and did not represent a threat that the bank would pull back from its Canary Wharf project.

In fact, there were other reasons before the tax was announced that made the building project less than attractive for the bank — namely that the bank had laid off thousands of employees since the project was conceived in 2008 and no longer needed such a large space.

Still, even if unspoken, the message behind the call was clear: There is a limit to what banks will accept as the price of doing business in Europe's premier financial center.

To be sure, bankers are often noted to be the best of blusterers. It is one thing for a strategy committee to study the feasibility of moving part of a bank's business to an alternative locale, as Goldman Sachs has done. It is quite another matter — logistically and financially as well as culturally — to move, say, 2,000 bankers and operations staff members to another European city, no matter how appealing it might be for their bonus pay.

"You have 25-year leases and kids in school," said Andrew Hilton, who runs CSFI, a London-based research center that focuses on financial issues. "It is hard to see a bank rethinking the whole thing."

Bankers everywhere are a favorite punching bag, especially now with bonuses expected to be high and perceptions increasing that loose money and a quick return to profitability are spurring a return to the type of risk-taking that led to the global financial crisis.

But Britain, despite its heavy reliance on the financial sector to drive its economy and generate tax revenue, is one of the few places that has actually taken concrete steps against banking excesses.

And with regulators in neighboring European capitals, to say nothing of New York itself, increasingly likely to follow London's lead, there may not be many places for banks to hide.

"The U.K. may be ahead, but it is not the only one going in this direction," said Lucian A. Bebchuk, a professor of finance at Harvard and an adviser to the United States Treasury on compensation. "This is a consensus view all over the world."