

# Fresh round of Wall Street bonuses rekindles scrutiny

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NEW YORK -- As resurgent Wall Street banks prepare to hand out billions of dollars in bonuses -- their first since returning federal bailout funds -- the payments are drawing intense scrutiny from regulators and politicians.

New York Attorney General Andrew M. Cuomo sent letters on Monday to the nation's eight largest banks demanding a detailed account of the bonuses planned for employees.

"The banks made money only because the taxpayers gave them a lot of money," said Cuomo, who has requested a response to his demand by Feb. 8. "They are institutions that would have failed were it not for the taxpayer money . . . Let's not forget there is a context here."

On Tuesday, regulators at the Federal Deposit Insurance Corp. are scheduled to consider a proposal to link the size of insurance premiums paid by banks it oversees to the soundness of their executive compensation policies.

Just a year after receiving billions of dollars in taxpayer assistance, banks are expected to pay bonuses for 2009 that will rank among the largest in Wall Street history. Most of the nation's largest banks have returned the taxpayer funds, thus escaping compensation restrictions, in large part because they were able to make profitable trades and raise money in markets thawed by federal rescue programs.

The public will get a sense of this year's payouts on Friday, when J.P. Morgan Chase plans to issue its results for 2009. Among the most watched figures will be how much each bank set aside in compensation.

"All indications are that levels continue to be quite high," said Lucian Bebchuk, a Harvard law professor who has advised the Obama administration on executive compensation. "Thus far, the evidence is not encouraging, with neither levels or structures being reformed to the extent that is necessary for addressing the problems of the crisis."

## **Public negotiations**

Through it all, banks have tried to appease public discontent. Goldman Sachs chief executive Lloyd C. Blankfein has apologized for his firm's role in the financial crisis and called for industry-wide compensation standards. But there is lingering skepticism that deeds will follow words.

Some Wall Street firms have made changes to their compensation policies as they seek to minimize the negative publicity that will likely follow the bonus decisions, to be finalized over the next several weeks.

Overall, Wall Street executives are preparing to take home packages made up of more stock-based awards and less cash. More senior executives could see the stock portion of their bonuses rise as much as 20 percent, while rank-and-file employees could receive about 10 percent more in company shares, according to one executive at a large bank. Goldman is compensating its top 30 executives entirely with stock.

Bank of America and Citigroup, which received heavy taxpayer assistance, have instituted clawback provisions for bonuses to senior executives; these aim to reward long-term performance and rein in the reckless behavior that regulators have blamed for playing a role in the financial meltdown. Morgan Stanley, which also has such a provision, is planning to tie 25 percent of deferred pay for about 25 top executives to specific performance metrics, according to a person familiar with the bank's plans. At least 65 percent of their pay will be deferred. Bank of America is planning to have a larger portion of its bonuses deferred and tied to the performance of its stock price.

J.P. Morgan, meanwhile, is expected to allocate a lower percentage of its total revenue to compensation compared with the previous year, although absolute pay levels will likely rise because of the firm's sharply higher earnings in 2009. Investment banks usually have set aside 50 percent of their annual revenue for compensation expenses, with a chunk of it paid out in year-end bonuses.

"Morgan Stanley's board and management clearly understands the extraordinary environment in which we operate and, as a result, have made a series of changes to the firm's compensation practices," Mark Lake, a bank spokesman, said in a statement.

### **The fine print**

Compensation experts say that the details will determine just how meaningful the proposed changes will be, though the banks in many cases have yet to clarify specifics. What exactly constitutes inappropriate risk-taking? Under what circumstances will clawbacks be triggered? How soon will the stock grants and stock options vest?

Some critics argue that measures meant to fix excessive compensation may produce the opposite effect, with stock-based grants simply gaining value because of an economy that is recovering from the worst downturn since the Great Depression. As scrutiny on bonuses intensified during the downturn, financial firms have increased the proportion of bonuses paid out in stock and options to buy stock. Last year, executives received their stock-based grants at what turned out to be bear-market lows.

During the first six months of 2009, the chief executives of financial companies in the Standard & Poor's 500-stock index who were awarded stock grants received an average of \$2.4 million in restricted shares, which by the end of the year had soared 70 percent to \$4.1 million, according to an analysis of data by Equilar. Stock options were worth an average of \$4.9 million per executive.

Stock option awards generally vest over a three-year period, which means executives will be able to cash in soon on a third of the awards granted last year. Options pose more risk for executives, who would get nothing if the stock is trading for less when the options expire.

"There's slight improvement but in a fundamental way, they still don't get it," said Nell Minow, co-founder of the Corporate Library. "It fails to account that the market on the whole is on an upward swing. And there is no discount [in bonuses] whatsoever for the government subsidies... On the downside they're all socialists and on the upside they're all capitalists."