Wall St. Urged to Tie Bonuses to Debt of Banks

New York Times DealBook
By Andrew Ross Sorkin
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Lucian A. Bebchuk, a professor of law, economics and finance at Harvard, contends that bonuses for Wall Street's top executives should be linked to the value of a firm's bonds as well as stock to align the interests of managers with those of everyone who holds a stake in the firm, Bloomberg News reports.

Under stock-based compensation plans, executives are "not exposed to the potential negative consequences that large losses could impose on other contributors to the capital structure, like preferred shareholders, bondholders and depositors," Mr. Bebchuk said Tuesday.

More from Bloomberg:

> Wall Street chief executive officers including Goldman Sachs Group Inc.'s Lloyd Blankfein and JPMorgan Chase & Co.'s Jamie Dimon continue to receive pay awards that are made up of restricted stock. Because banks carry more debt than equity, a better compensation system would also link executives' pay to the performance of bonds and preferred stock, Bebchuk said.
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> "We could tie the payoffs to executives not just to the value of common shares but to the long-term value of a broader basket of securities," Bebchuk said. "So, for example, instead of giving executives 3 percent of the value of the firm's common shares, you could give them, say, 1 percent of the aggregate value of the common shares, preferred shares and bonds."

Mr. Bebchuk, the director of the corporate governance program at Harvard Law School, has written extensively about executive compensation. Last fall, Mr. Bebchuck and Holger Spamann, co-executive director and fellow of the corporate governance program, took part in DealBook Dialogue and discussed ways to change executive compensation to reduce excessive incentives for taking short-term risks.