

Levine on Wall Street: Dysfunction at Dish

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Companies are paying people up front

Look obviously if Bloomberg View had given me a \$52.7 million signing bonus I would not be up at 7 a.m. linking to this story about signing bonuses for chief executive officers, so I am sympathetic to its argument that big up-front bonuses are maybe not the best way to motivate or reward performance. They *are* a reasonable way to attract an executive with lots of unvested comp at another firm that she'd be giving up to take a new job. But that has a bit of an arm's-race problem: You pay a big up-front bonus to lure a new CEO, you pay her millions of dollars of stock and deferred comp to keep her loyalty if she's good, and then she goes somewhere else that pays her a signing bonus to buy out that deferred comp. The signing bonus doesn't just "provide no retention incentives," as Lucian Bebchuk is quoted saying; it actually undermines the whole structure of executive retention.

JPMorgan was planning to pay Social Security benefits

Do you think that Jamie Dimon is a little sad that there wasn't a U.S. government default? It could have been quite a PR coup, according to this great Reuters story about banks' preparations for default:

In October, officials at JPMorgan Chase & Co asked Chief Executive Jamie Dimon how to handle the government benefits that many of its customers receive monthly.

Some of the bank's retail customers depend on government programs like Social Security and food stamps to pay their bills, and Dimon decided the bank would pay the benefits out of its own pocket if it had to.

"We're going to fund them," he said, according to a person at the meeting. "It is the right thing to do."

Though you will not be surprised to learn that "Staff in the legal, finance and risk departments, were reluctant," since it would cost \$5 billion a month and they'd be on thin legal ground in getting repaid. (Also it would be "unclear how regulators would assess the riskiness of the loans it was making," stupid regulators, always getting in the way of doing the right thing.) So perhaps Dimon saying this in a meeting, and it turning out not to be necessary, is a better result for the bank than the government defaulting, JPMorgan not funding Social Security payments, and Jamie Dimon saying "well, I wanted to, but, y'know, lawyers."

MF Global is paying people back

A court ordered MF Global to pay \$1.2 billion in restitution to customers who lost money when MF Global blew up in 2011, which seems only fair. The court also told the bankrupt commodity brokerage to pay a \$100 million fine to the Commodity Futures Trading Commission, which is a

bit harsher than ordering oh say I don't know JPMorgan to pay a big fine, since JPMorgan has lots of money -- made from its illegal activities, you might say, or not -- while MF Global doesn't. To be more specific, MF Global would appear to have negative amounts of money, thus the bankruptcy. The fine "shall be accorded the priority under section 726(a)(4)" of the Bankruptcy Code, "and shall accordingly be subordinated to claims of customers and other senior classes of creditors, including general unsecured creditors." So it basically [comes after](#) paying back all of MF Global's creditors, but before paying them interest or paying shareholders. I suspect that the CFTC will be waiting a while to see that money.

Dysfunction at Dish

It's possible that the saga of Charlie Ergen's efforts to buy LightSquared is not for everyone but I have trouble believing that. Ergen, [you'll recall](#), is the main shareholder of Dish Network, who secretly bought up a lot of LightSquared debt for his personal account, then had Dish make a bid to buy LightSquared out of bankruptcy. There are at least two big problems with that. One is that Dish was not allowed to buy LightSquared debt (being a competitor excluded by the credit agreement), and [LightSquared is still arguing](#) that Ergen's personal purchases were really made by Dish -- specifically by its treasurer, Jason Kiser, who apparently has a "mentor-mentee" relationship with Ergen. The other is that Dish's other shareholders feel a bit aggrieved about the process by which Dish had bid for LightSquared, which [if you believe their story](#) included Ergen making a bid without consulting the board, then calling the board and being like "oh hey we're buying LightSquared," which is pretty bold. Then he sort of had to set up a belated special committee of independent directors to supervise the bidding, and get permission from those directors to bid again. Which they gave, subject to continuing special committee supervision, after which Ergen promptly disbanded the special committee. It's all very sordid and delightful.